

2006 0055  
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**REGIONAL  
ECONOMIC  
OUTLOOK**

The  
**San Francisco  
Bay Area:**

**MONEY** IN THE **BANK?**

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**January 26, 2006**  
**Joseph P. Bort MetroCenter**  
**Oakland, California**



**Association of  
Bay Area Governments**

2006 & 2007





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# The San Francisco Bay Area: Money in the Bank?

## Agenda

8:30 a.m. Registration

9:00 a.m. Welcome and Overview

9:10 a.m. California Outlook: Will 2006 Be Better than 2005?

Howard Roth, Chief Economist, California Department of Finance

- How well will the state's economy cope with higher energy costs and rising interest rates in 2006?
- Will 2006 bring more high-tech and biotech jobs?
- What risks do the state's housing markets present to the economic expansion?

9:50 a.m. Bay Area Outlook: Does Being in the Bay Area Mean Money in the Bank?

Paul Fassinger, Research Director, Association of Bay Area Governments

- Bay Area index of leading indicators
- Are the odds in our favor?
- Economic trends in the Bay Area's future

10:30 a.m. Break

10:40 a.m. Bay Area Retail Sales: To Buy or Not to Buy?

Randy Deshazo, Senior Regional Planner, Association of Bay Area Governments

- County taxable sales forecast
- Sales tax winners and losers

11:00 a.m. The Real Estate Market: Prognosis for the Next Two Years

Mary Murtagh, President & CEO, EAH, Inc.

Alan Strachan, Developer

John Troughton, Director, Cushman & Wakefield

- Where are prices going?
- Trends in the market
- Outlook for the commercial markets

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# **Outlook for the California Economy in 2006 and 2007**

Association of Bay Area Governments

The San Francisco Bay Area: Money in the  
Bank?

Regional Economic Outlook: 2006 and 2007

**Howard Roth**

**Chief Economist**

**California Department of Finance**

**January 26, 2006**

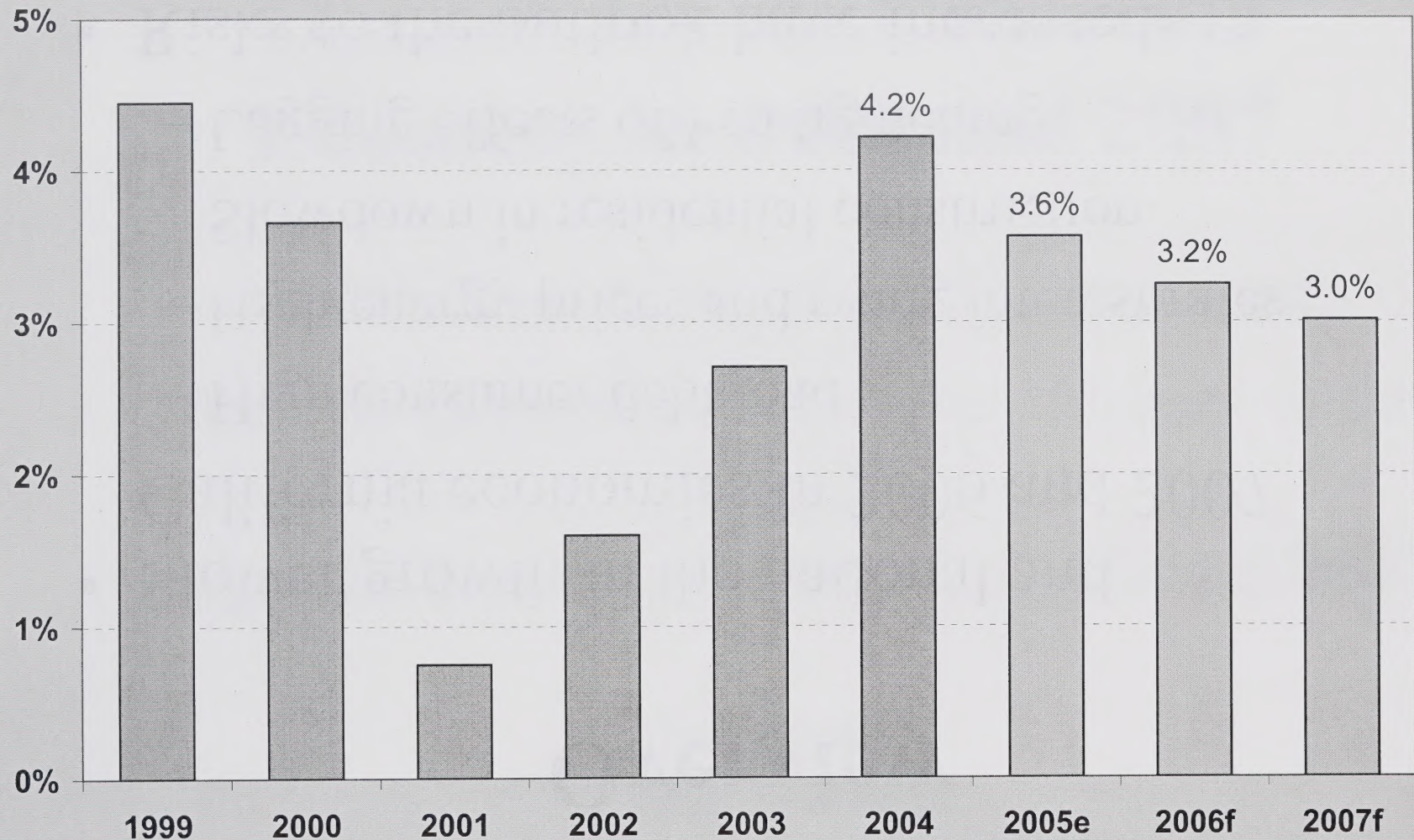


# Overview

- Slower growth in the national and California economies in 2006 and 2007
  - High consumer debt load
  - High energy prices and rising interest rates
  - Slowdown in residential construction
  - Lagging effects of Fed tightening
- Risks to the outlook have increased



## Real Gross Domestic Product Annual Percent Change

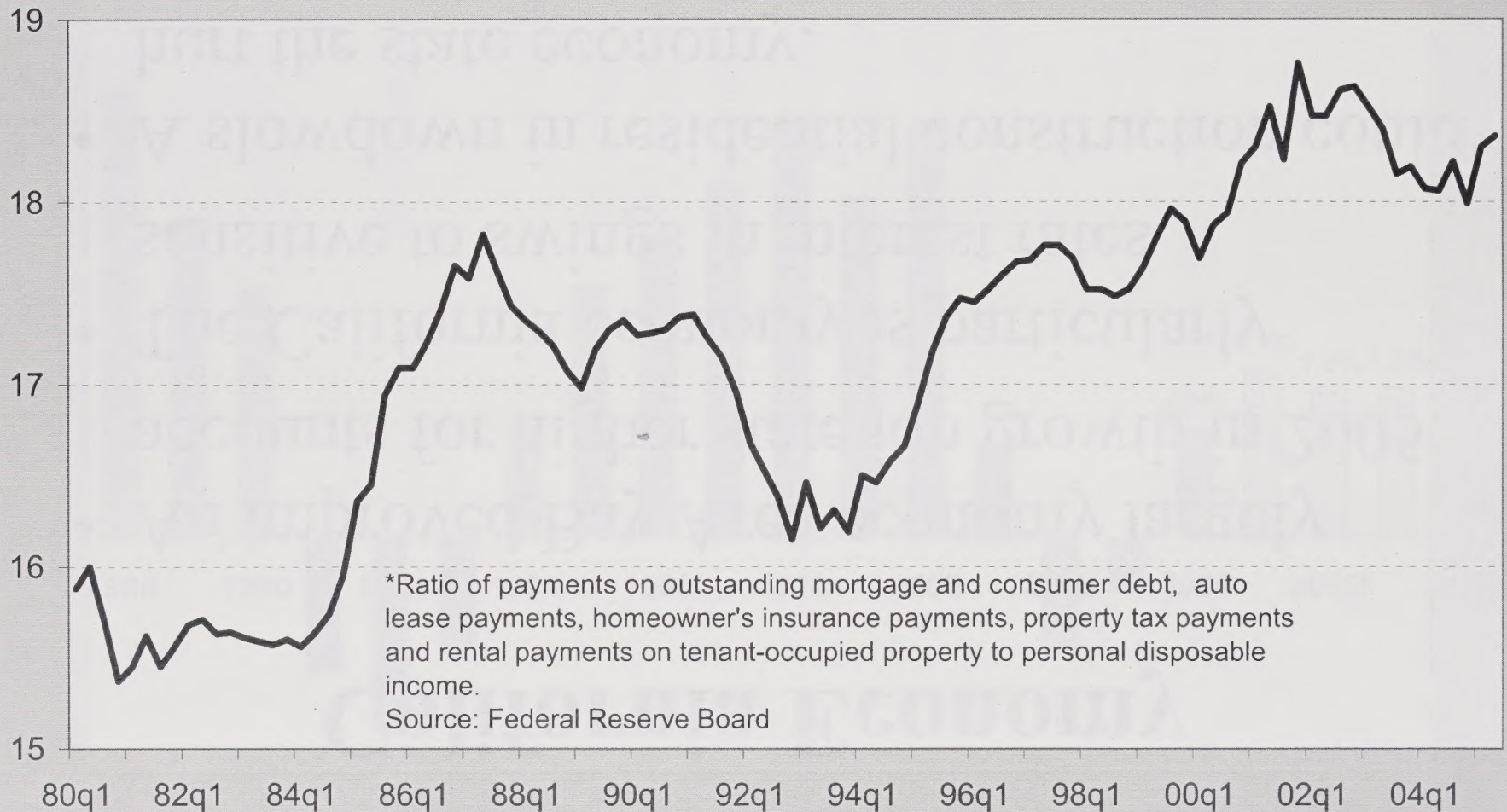


e: estimate; f: forecast (Governor's Budget 2006-07); Sources: Bureau of Economic Analysis, US Commerce Department; Governor's Budget 2006-07



# Household Financial Obligation Ratio\*

Percent



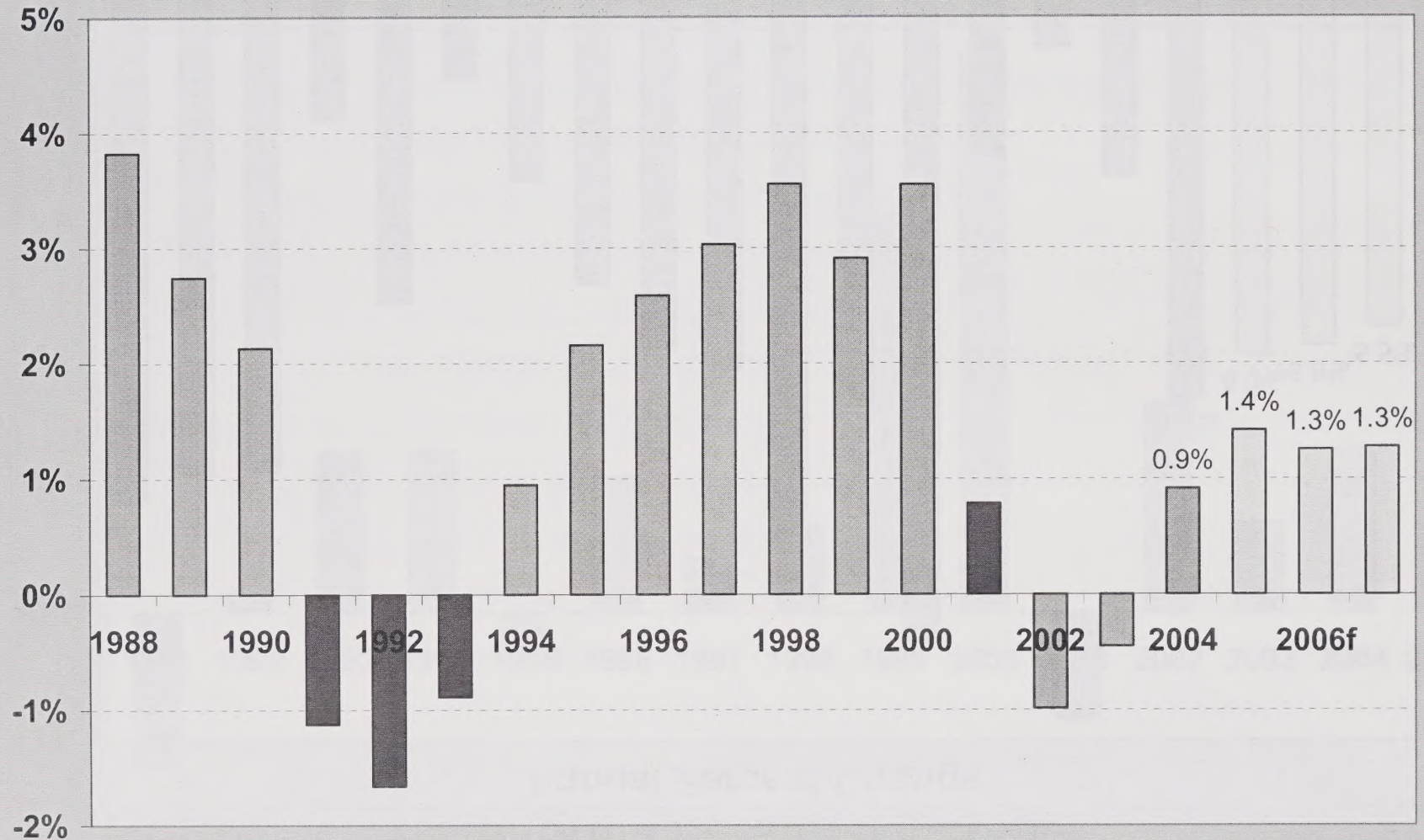


# California Economy

- An improved Bay Area economy largely accounts for higher state job growth in 2005.
- The California economy is particularly sensitive to swings in interest rates.
- A slowdown in residential construction could hurt the state economy.



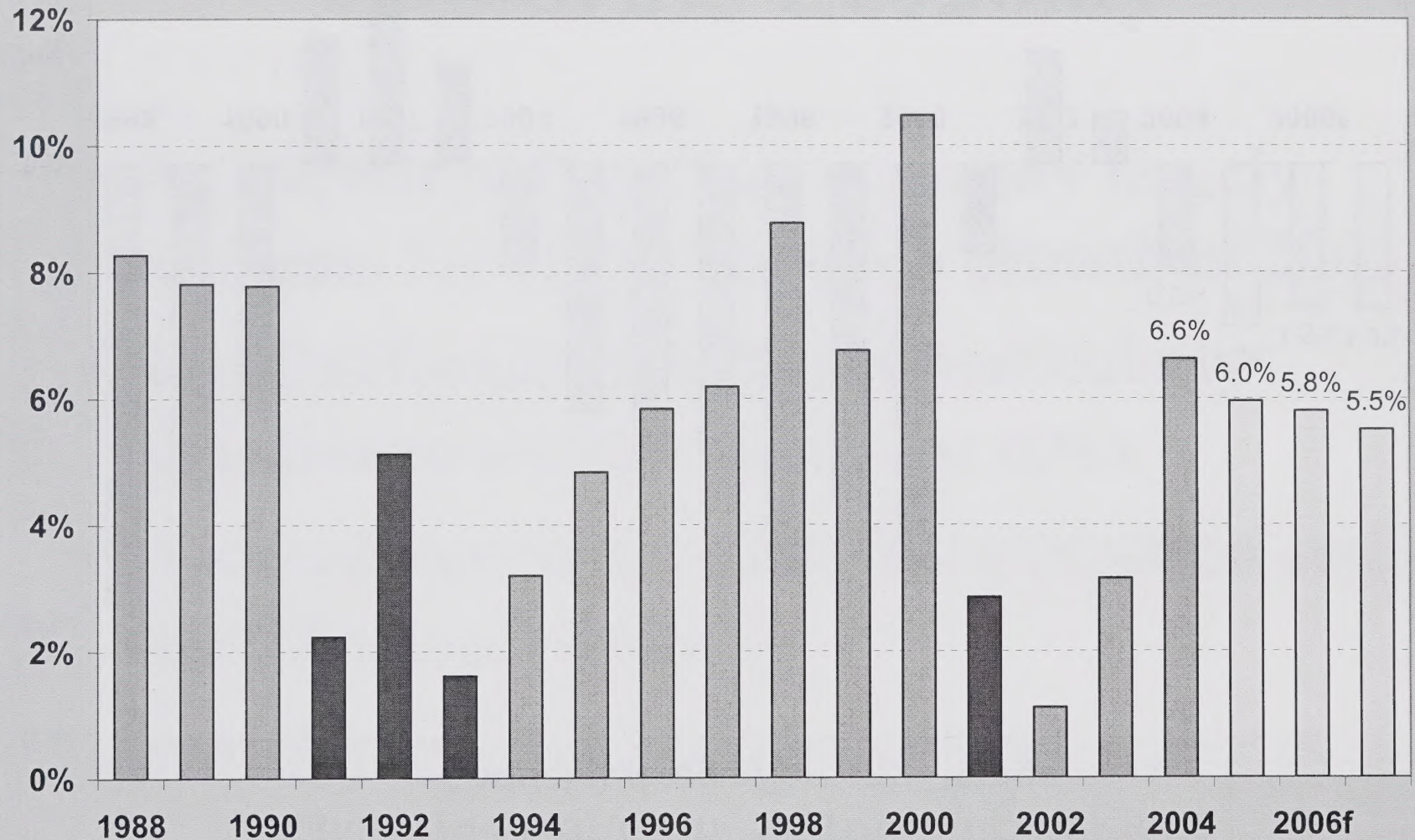
# California Nonfarm Payroll Employment Annual Average Percent Change



e: estimate; f: forecast (Governor's Budget 2006-07); Sources: CA Employment Development Department; Governor's Budget 2006-07



## California Personal Income Annual Percent Change

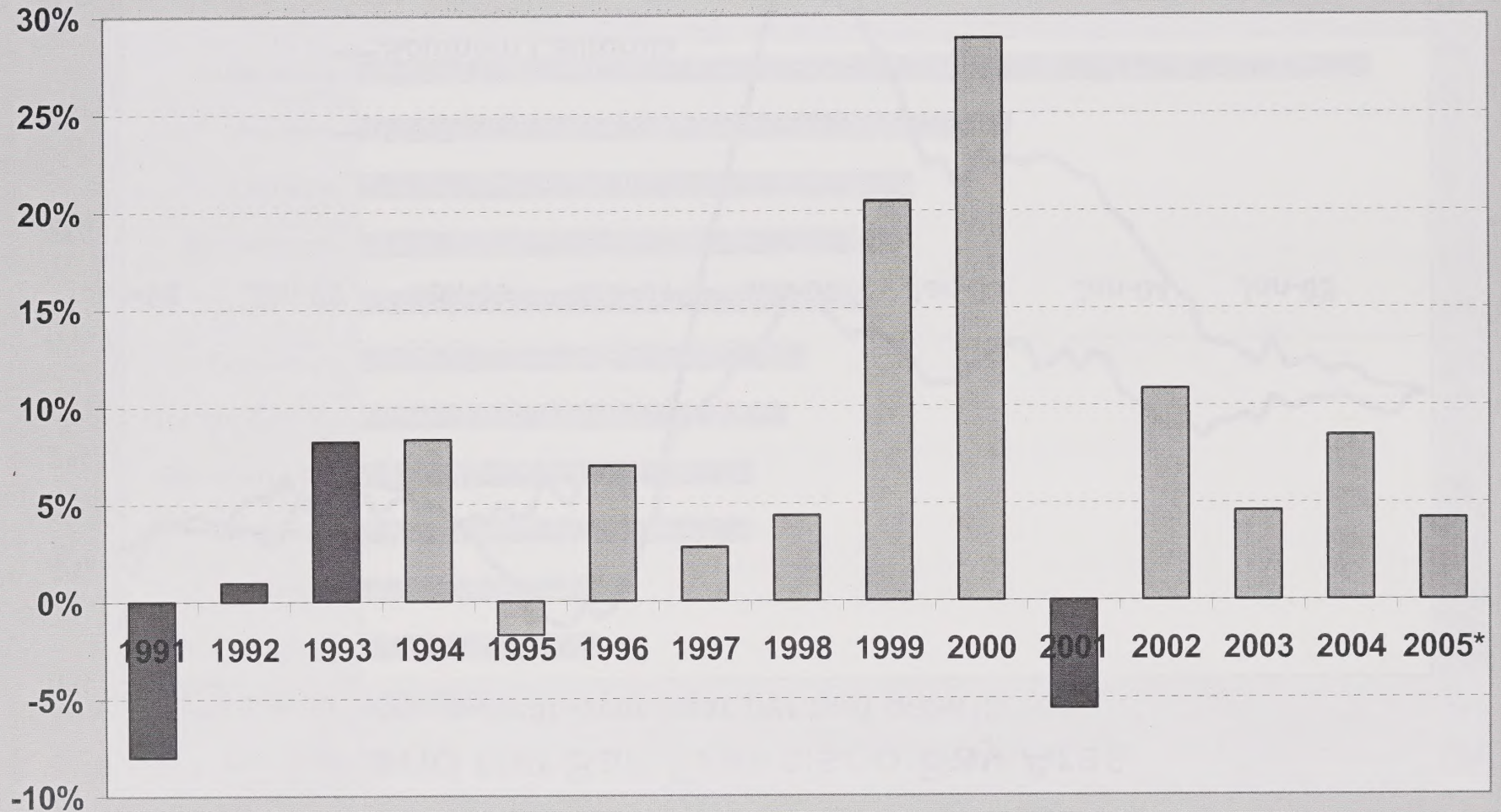


e: estimate; f: forecast ( Governor's Budget 2006-07); Sources: Bureau of Economic Analysis, US Commerce Department; Governor's Budget 2006-07



## New Business Incorporations in California

### Annual Percent Change

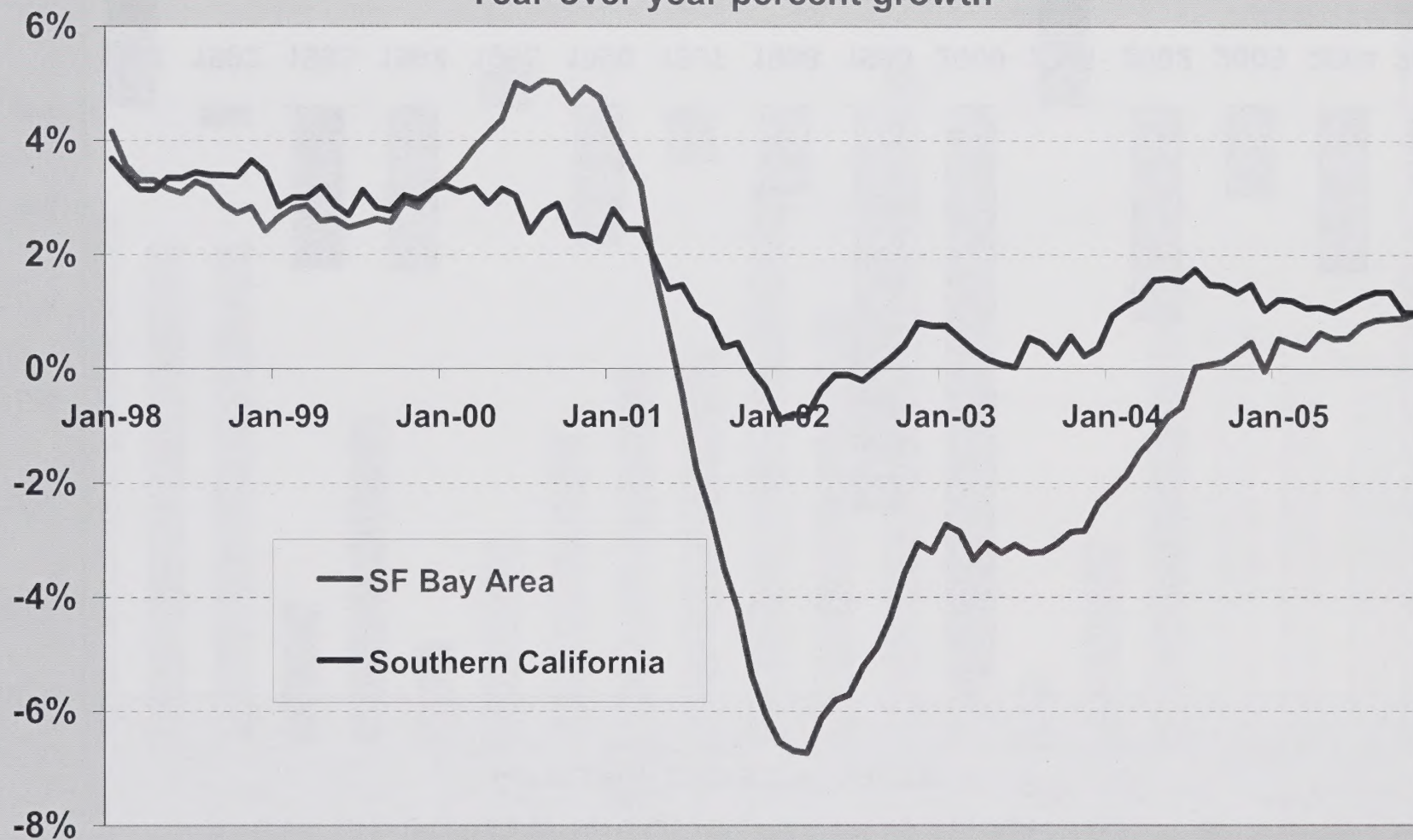


\*based on the first 9 months of 2005



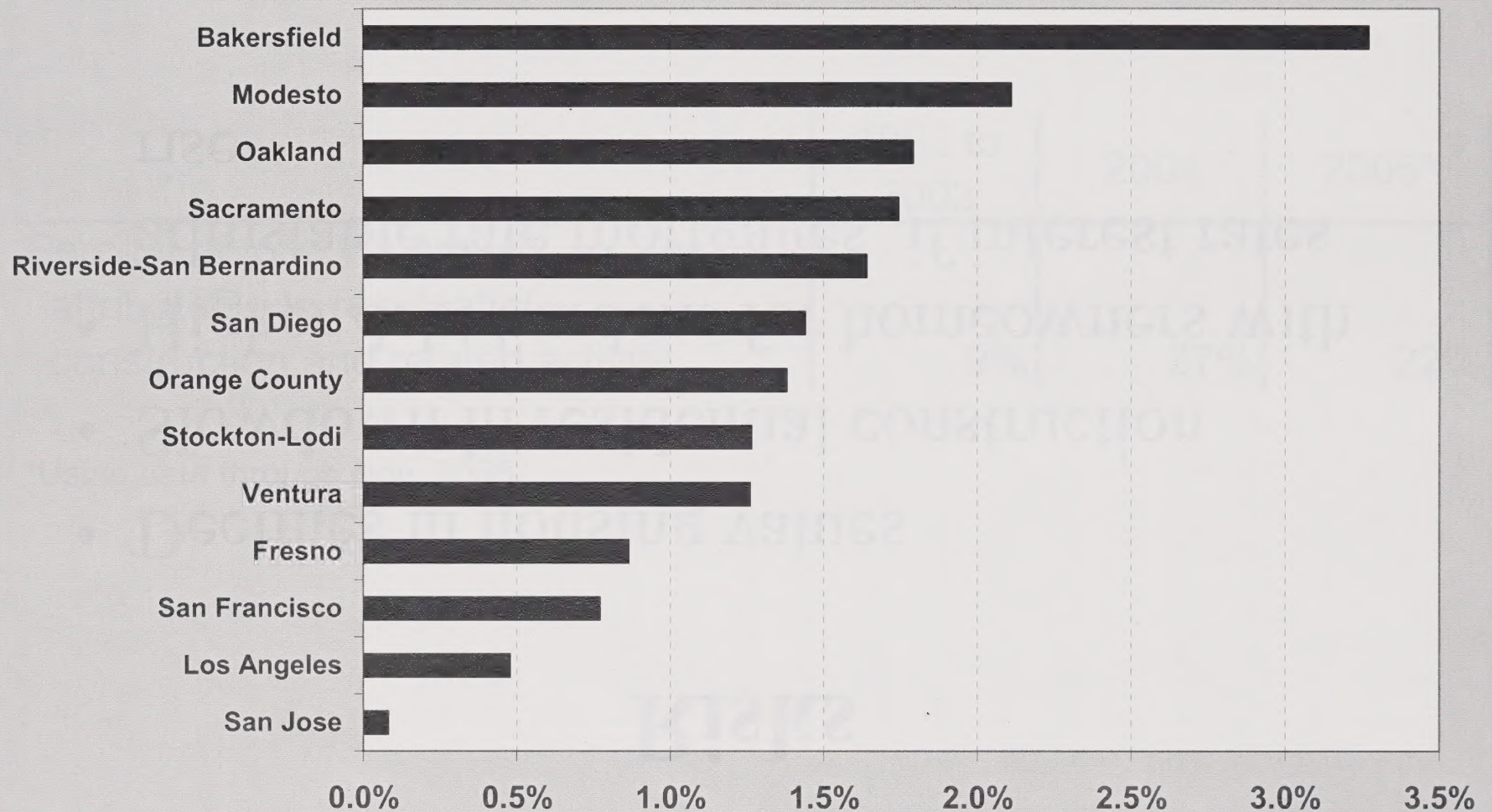
## Job Growth in Southern California and the San Francisco Bay Area

Year-over-year percent growth





## Nonfarm Payroll Employment Growth Nov. 2004 to Nov. 2005





# Risks

- Declines in housing values
- Slowdown in residential construction
- Higher debt burdens for homeowners with adjustable rate mortgages, if interest rates rise



# Relying Less on Construction for Job Growth

|                                                                                                 | 1992 to<br>2003 | 2004 | 2005* |
|-------------------------------------------------------------------------------------------------|-----------------|------|-------|
| Percent of total job growth<br>attributable to residential<br>construction and related activity | 9%              | 37%  | 22%   |

\*Using data through Nov. 2005



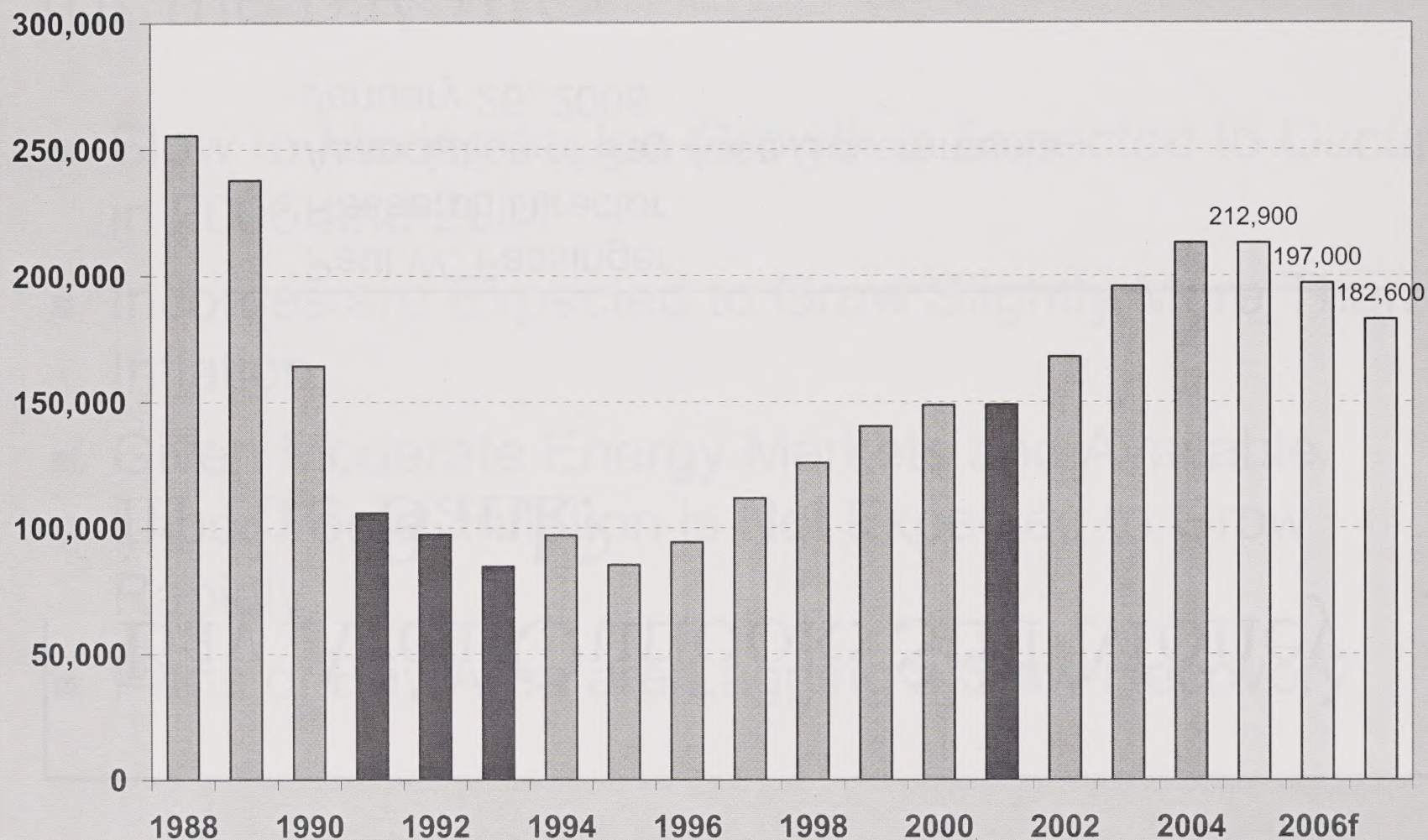
# Home Sales Slowing

|                | Sales  |        |        | Median Price |        |        |
|----------------|--------|--------|--------|--------------|--------|--------|
|                | Nov-04 | Nov-05 | Change | Nov-04       | Nov-05 | Change |
| All Homes      |        |        |        |              |        |        |
| Alameda        | 2,251  | 2,009  | -10.8% | \$500K       | \$587K | 17.4%  |
| Contra Costa   | 2,179  | 1,961  | -10.0% | \$474K       | \$589K | 24.3%  |
| Marin          | 413    | 361    | -12.6% | \$739K       | \$809K | 9.5%   |
| Napa           | 221    | 183    | -17.2% | \$535K       | \$605K | 13.1%  |
| San Francisco  | 616    | 594    | -3.6%  | \$697K       | \$749K | 7.5%   |
| San Mateo      | 920    | 756    | -17.8% | \$664K       | \$733K | 10.4%  |
| Santa Clara    | 2,624  | 2,394  | -8.8%  | \$560K       | \$653K | 16.6%  |
| Solano         | 918    | 774    | -15.7% | \$400K       | \$490K | 22.5%  |
| Sonoma         | 755    | 685    | -9.3%  | \$472K       | \$574K | 21.6%  |
| Bay Area       | 10,897 | 9,717  | -10.8% | \$533K       | \$625K | 17.3%  |
|                |        |        |        |              |        |        |
| Los Angeles    | 9,404  | 9,066  | -3.6%  | \$416K       | \$497K | 19.5%  |
| Orange County  | 3,560  | 3,503  | -1.6%  | \$541K       | \$616K | 13.9%  |
| San Diego      | 4,350  | 3,937  | -9.5%  | \$487K       | \$518K | 6.4%   |
| Riverside      | 4,978  | 5,904  | 18.6%  | \$346K       | \$405K | 17.1%  |
| San Bernardino | 4,065  | 3,992  | -1.8%  | \$284K       | \$350K | 23.2%  |
| Ventura        | 1,102  | 1,235  | 12.1%  | \$507K       | \$612K | 20.7%  |
| So. California | 27,459 | 27,637 | 0.6%   | \$415K       | \$479K | 15.4%  |
|                |        |        |        |              |        |        |
| Statewide      | 53,250 | 51,250 | -3.8%  | \$398K       | \$458K | 15.1%  |

Source: DataQuick Information Systems



## California Housing Permits Annual



e: estimate; f: forecast (Governor's Budget 2006-07); Sources: Construction Industry Research Board; Governor's Budget 2006-07



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# Bay Area Outlook: Still Money in the Bank?

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Paul W. Fassinger  
Research Director  
Association of Bay Area Governments  
January 26, 2006



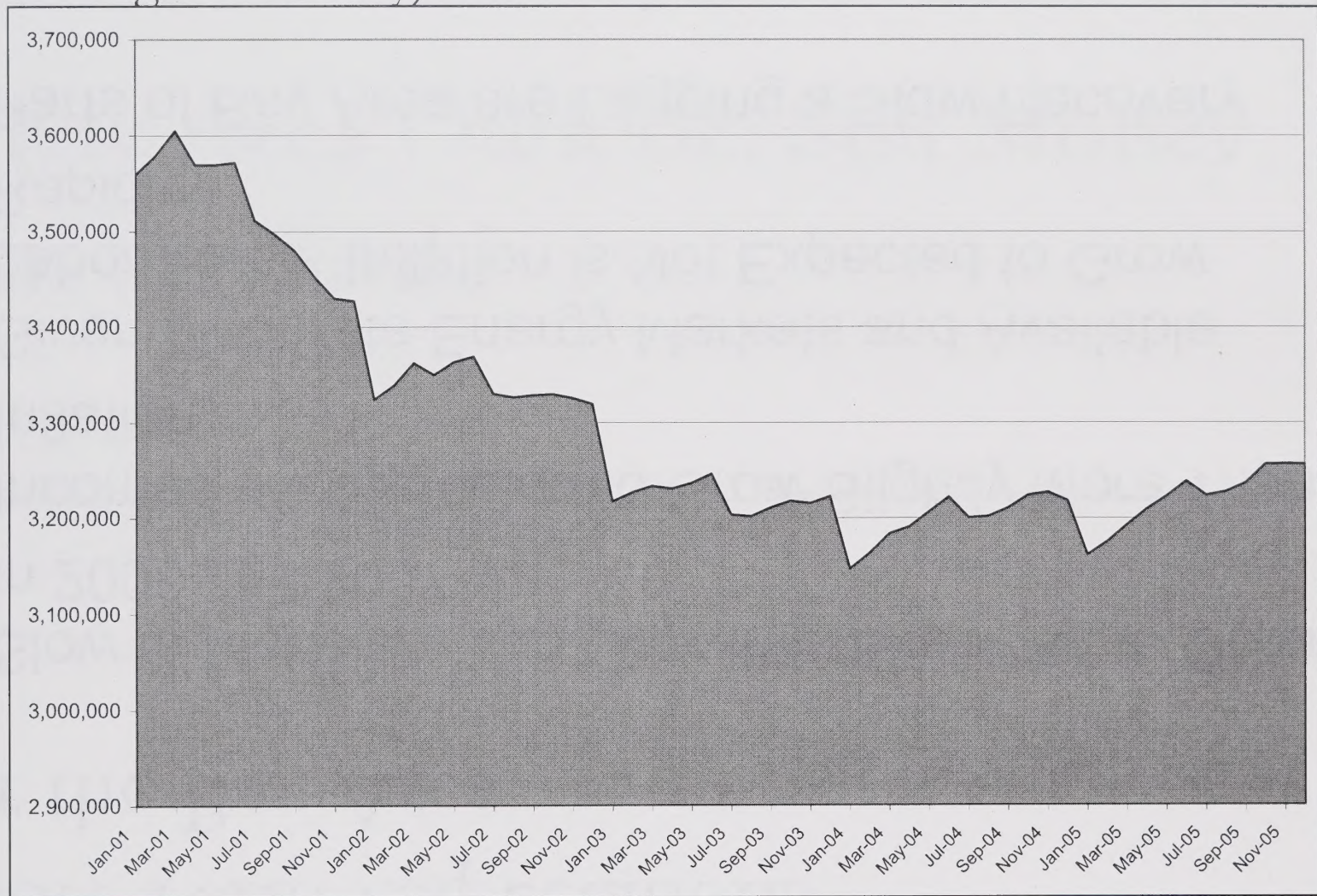
# Short Term Expectations for the Bay Area

- Slow to Moderate Job Growth is Expected to Occur in 2006 and 2007
- Incomes are Expected to Grow Slightly More Than Inflation
- Given Moderate Energy Markets and Available Labor Force, Inflation is Not Expected to Grow Rapidly
- Parts of Bay Area are Lagging a Slow Recovery



# Bay Area Employment

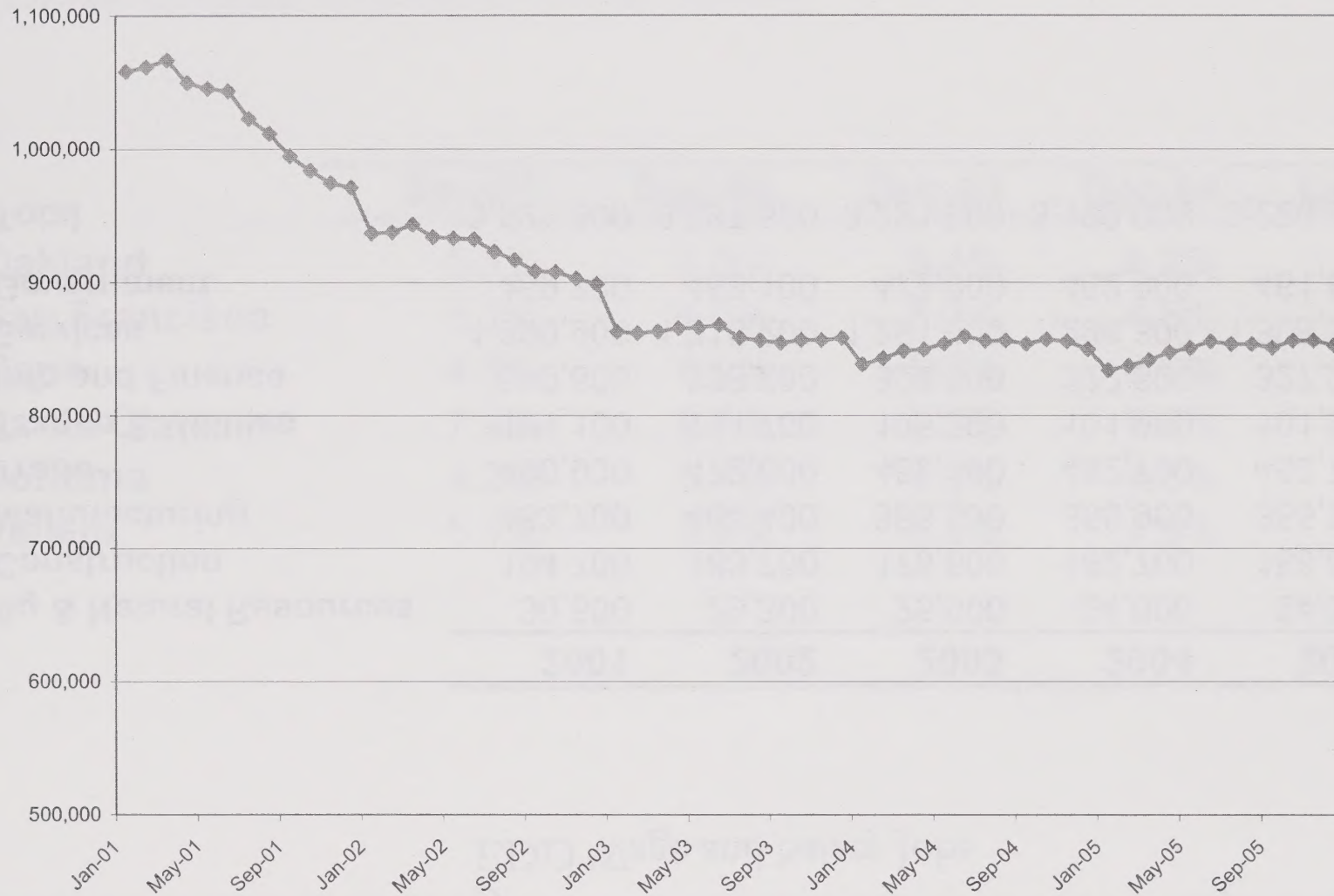
(EDD Wage and Salary)





# Santa Clara County Employment

(EDD Wage and Salary)



# Recent Job Growth History

EDD Wage and Salary Jobs

|                                   | 2001      | 2002      | 2003      | 2004      | 2005      |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Ag &amp; Natural Resources</b> | 30,500    | 29,300    | 25,000    | 24,000    | 24,300    |
| <b>Construction</b>               | 194,700   | 183,700   | 178,600   | 182,700   | 188,800   |
| <b>Manufacturing</b>              | 463,700   | 404,400   | 363,500   | 355,900   | 355,800   |
| <b>Trade</b>                      | 490,900   | 472,000   | 458,100   | 452,700   | 452,700   |
| <b>Transp &amp; Utilities</b>     | 121,100   | 111,700   | 105,200   | 101,900   | 101,900   |
| <b>Info and Finance</b>           | 359,800   | 338,200   | 328,000   | 322,600   | 327,200   |
| <b>Services</b>                   | 1,390,900 | 1,315,200 | 1,291,500 | 1,296,300 | 1,308,300 |
| <b>Government</b>                 | 469,700   | 483,100   | 472,000   | 462,900   | 461,800   |
| <b>Total</b>                      | 3,521,300 | 3,337,600 | 3,221,900 | 3,199,000 | 3,220,800 |



# Unemployment Rates

(EDD Civilian Unemployment Rates)

|                      | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|----------------------|--------|--------|--------|--------|--------|
| <b>Oakland</b>       | 5.3%   | 6.3%   | 6.4%   | 4.9%   | 4.1%   |
| <b>San Francisco</b> | 5.3%   | 6.0%   | 5.3%   | 4.5%   | 3.8%   |
| <b>Napa</b>          | 4.5%   | 5.2%   | 5.0%   | 4.8%   | 4.0%   |
| <b>Santa Clara</b>   | 7.2%   | 8.7%   | 7.2%   | 5.6%   | 4.6%   |
| <b>Sonoma</b>        | 4.2%   | 5.1%   | 4.9%   | 4.3%   | 3.8%   |
| <b>Vallejo</b>       | 5.1%   | 5.8%   | 5.8%   | 4.9%   | 4.1%   |

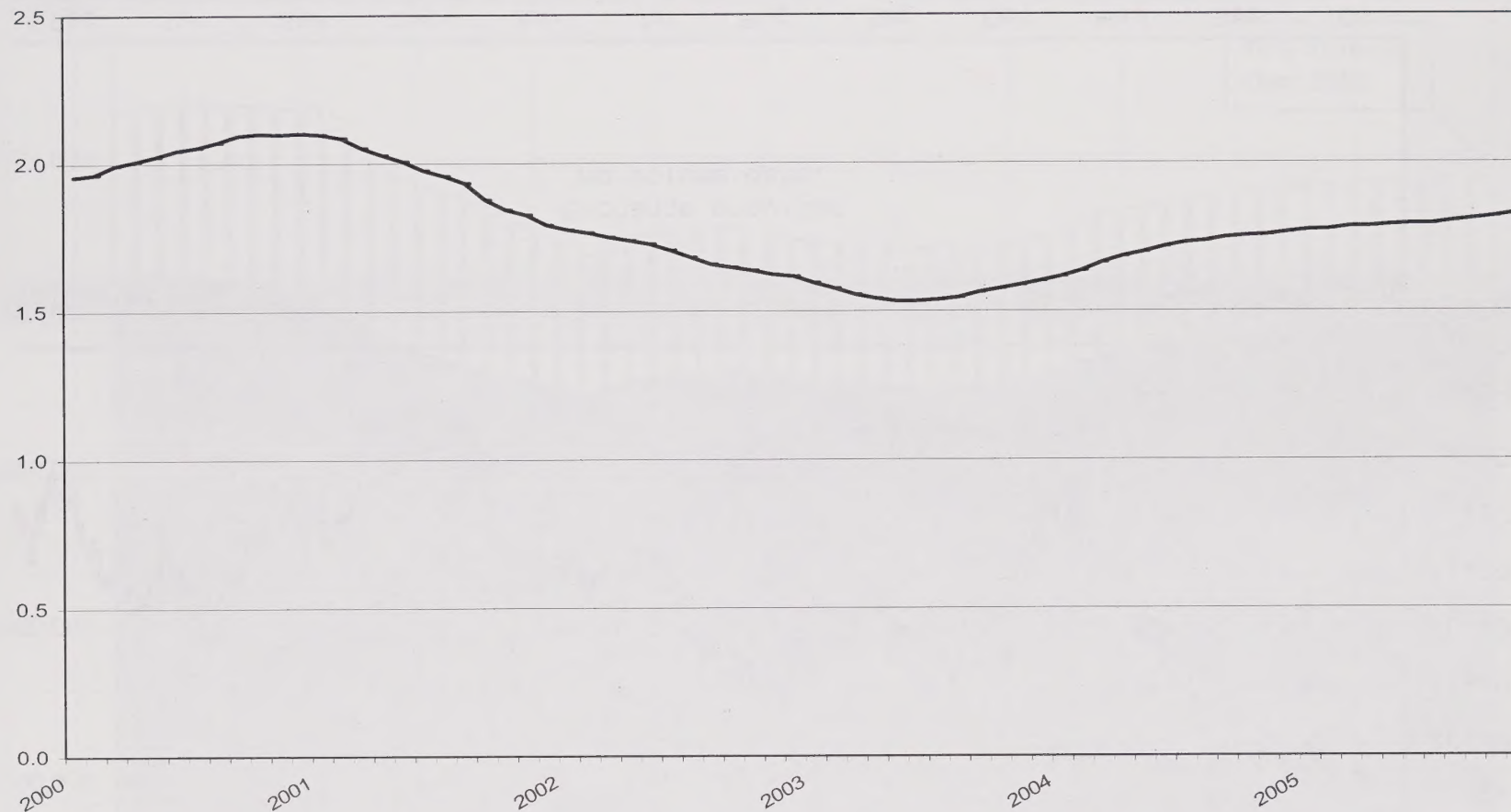
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# Bay Area Index

- Leading Economic Indicator for the Bay Area
- Indicates Employ Growth 3-6 Months in Advance
- Components Include
  - Book to Bill Ratio for Printed Circuit Boards
  - S&P 500
  - Airline Passenger Travel
  - Regional Retail Sales Data
- Components Represent 12 Month Moving Avgs.



# Bay Area Index

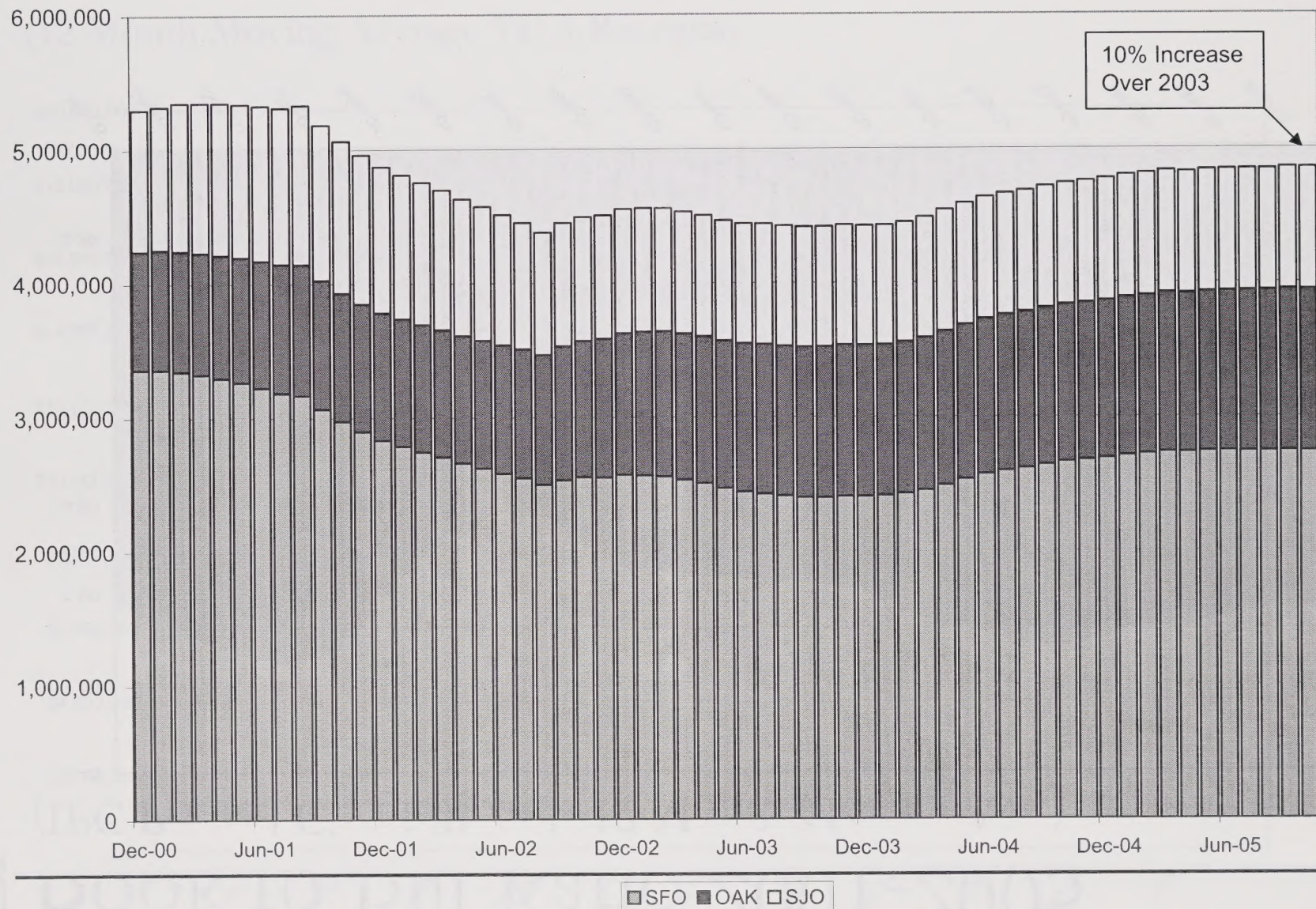


# S&P 500 Index





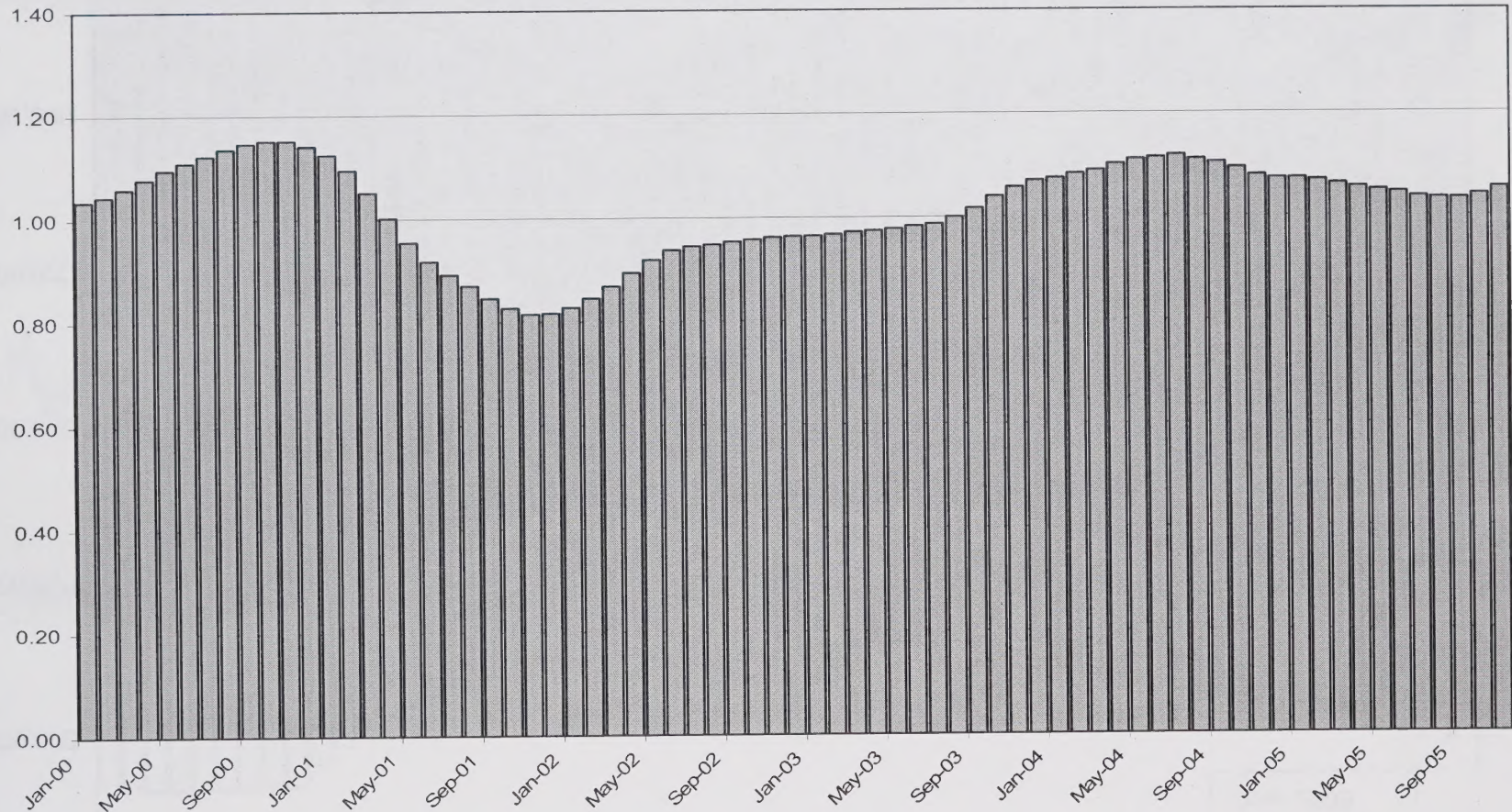
# Airline Passengers Bay Area





# Book to Bill Ratio 2001-2005

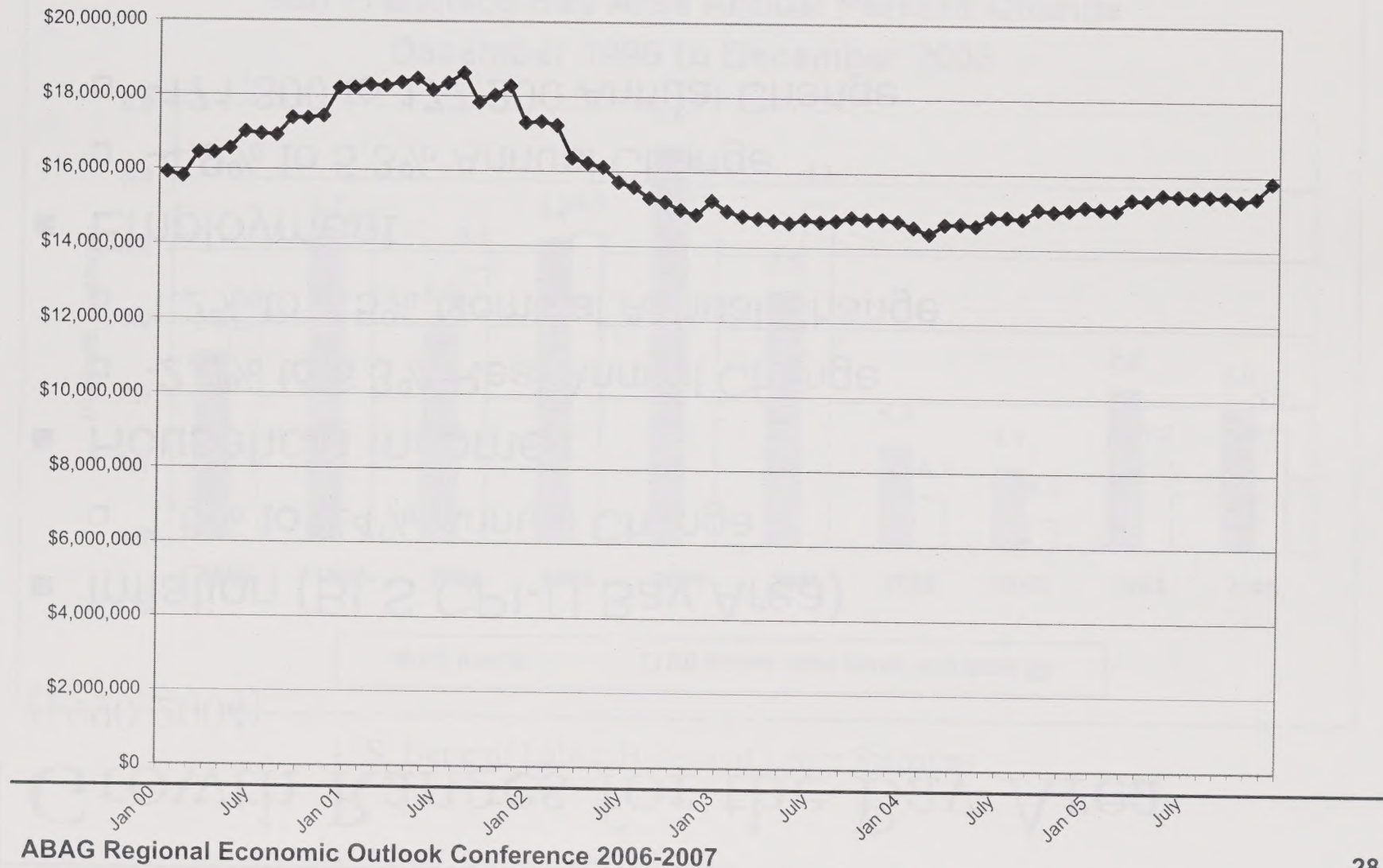
(IPC Printed Circuit Boards 12 Month Moving Ave.)





# Retail Sales for Bay Area 2001-2005

(12 Month Moving Average TDA Receipts)



# Growth Ranges for the Bay Area

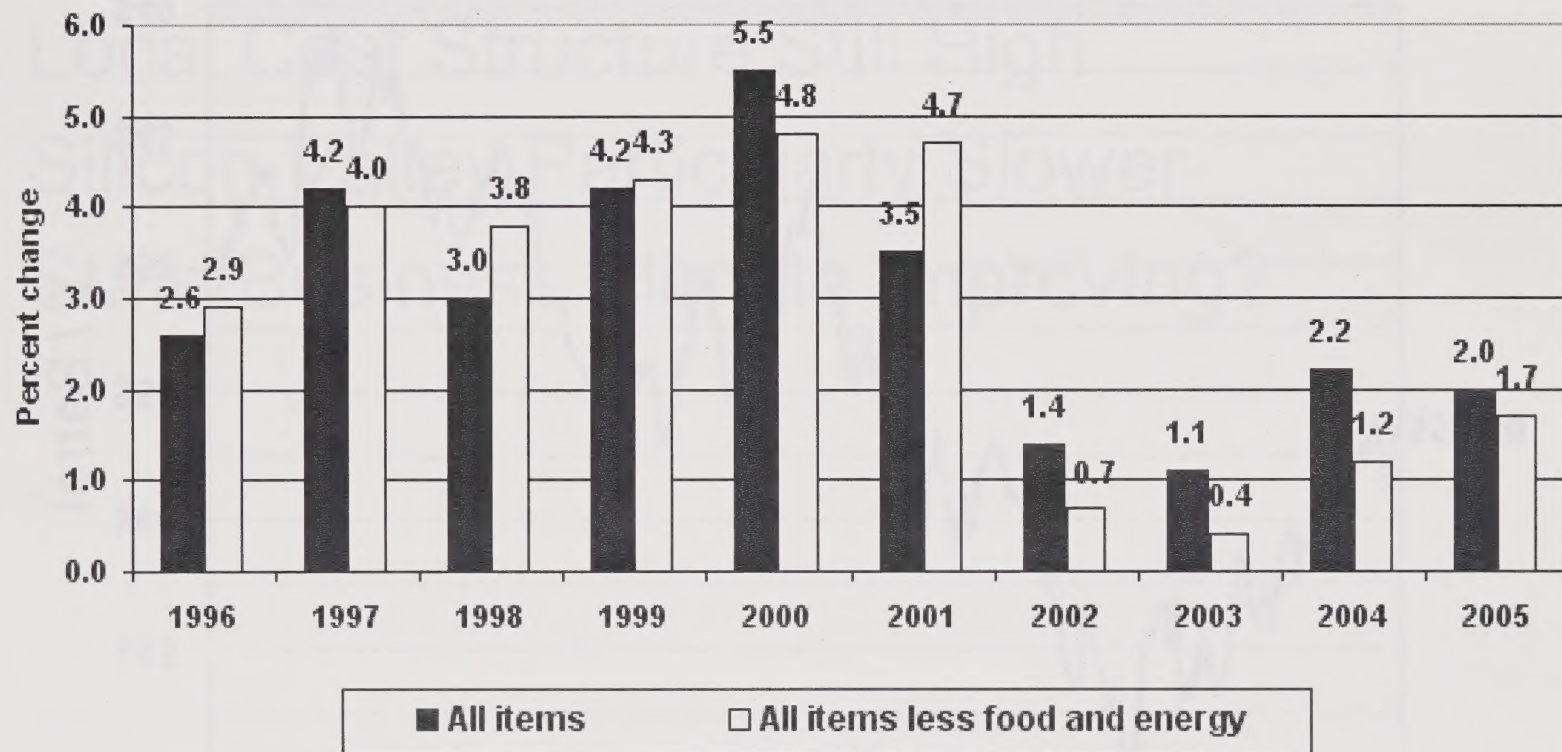
(1990-2004)

- Inflation (BLS CPI-U Bay Area)
  - 1.6% to 5.4% Annual Change
- Household Income
  - -2.0% to 6.3% Real Annual Change
  - 1.2% to 8.5% Nominal Annual Change
- Employment
  - -4.9% to 5.3% Annual Change
  - -171,300 to 177,200 Annual Change



# Bay Area CPI

San Francisco Bay Area Annual Percent Change  
December 1996 to December 2005



U.S. Dept. of Labor, Bureau of Labor Statistics

# Oil Futures Prices

NYMEX Crude Oil Futures  
Close ( Front Month )



Nov 1, 2004 - Nov 29, 2005

WTRG Economics ©2005  
www.wtrg.com  
(479) 293-4081

— Close



# Slow Recovery Continues

- Increased Security Reduces Growth
- Local Cost Structure Still High
- Silicon Valley Particularly Slower
- State Business Climate Improving?

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# Longer Term Health of Region

- Physical Advantages of the Region
- Existing Economic Infrastructure
- Ability to Generate Productivity Gains



# Forecast Summary

|                      | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Inflation</b>     | 1.8%        | 1.2%        | 2.0%        | 2.5%        | 2.6%        |
| <b>Income Growth</b> | -0.9%       | 0.8%        | 1.4%        | 1.5%        | 1.6%        |
| <b>Job Growth</b>    | -117,000    | -22,400     | 22,000      | 40,000      | 55,000      |

Inflation Estimates are for the Bay Area Only

Income Growth describes expected growth in real income

Jobs Growth is for Wage and Salary Jobs

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# Conclusions

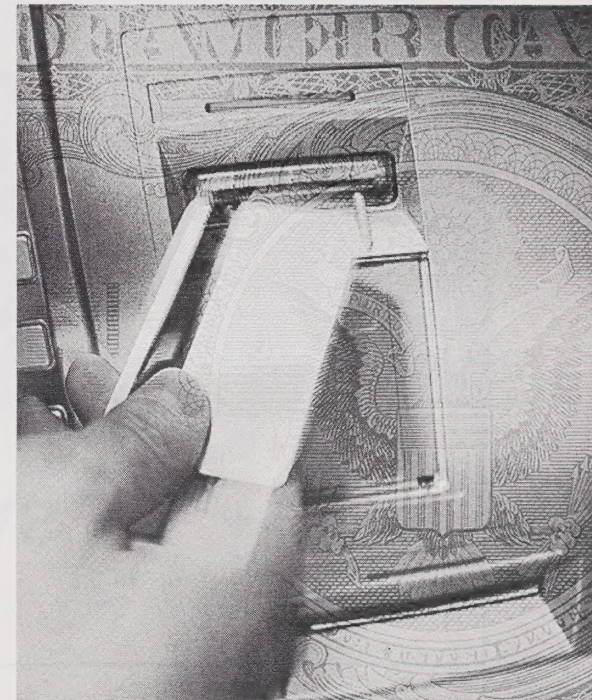
- Bay Area Index and its Components Suggest an Improving Economic Picture
- Our Expectations Are Still for Slow Growth
- Energy Prices, State Budget, Security continue to be a Concern
- Silicon Valley Unique Because of the Extent of the Contraction



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# San Francisco Bay Area Taxable Sales Forecast

Randy Deshazo  
Senior Regional Planner  
Association of Bay Area Governments



# Retailer Ups & Downs

## 2005 Comparable-Store Sales

### ■ General Merchandise

■ CVS +6.5%

■ Target +5.6%

■ Wal-Mart +3.5%

### ■ Apparel

■ Chico's FAS +14.3%

■ Home Supply

■ Pier 1 -8.1%

Source: **Business Wire Retail Report**



# Retailer Ups & Downs

2004-2005 Comparable-Store Sales

|                             | 2004   | 2005   |
|-----------------------------|--------|--------|
| ■ American Eagle Outfitters | +21.4% | +15.8% |
| ■ Bombay Company            | -13%   | -2%    |
| ■ Big Lots                  | -0.3%  | +1.5%  |

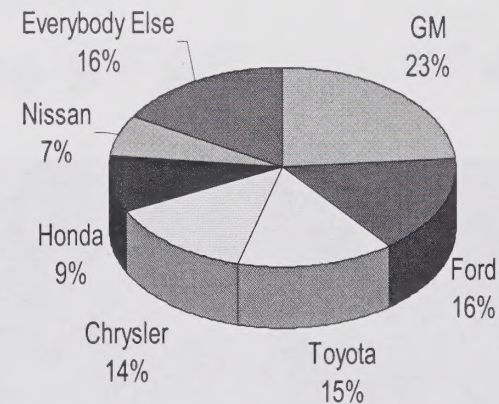


# Retailer Trends

Number of Vehicles Sold During 2005 compared to 2004

|            |         |
|------------|---------|
| ■ GM       | -3.8%   |
| ■ Ford     | -4.3%   |
| ■ Chrysler | +5%     |
| ■ Toyota   | + 9.9%  |
| ■ Honda    | + 5.8%  |
| ■ Nissan   | + 10.3% |

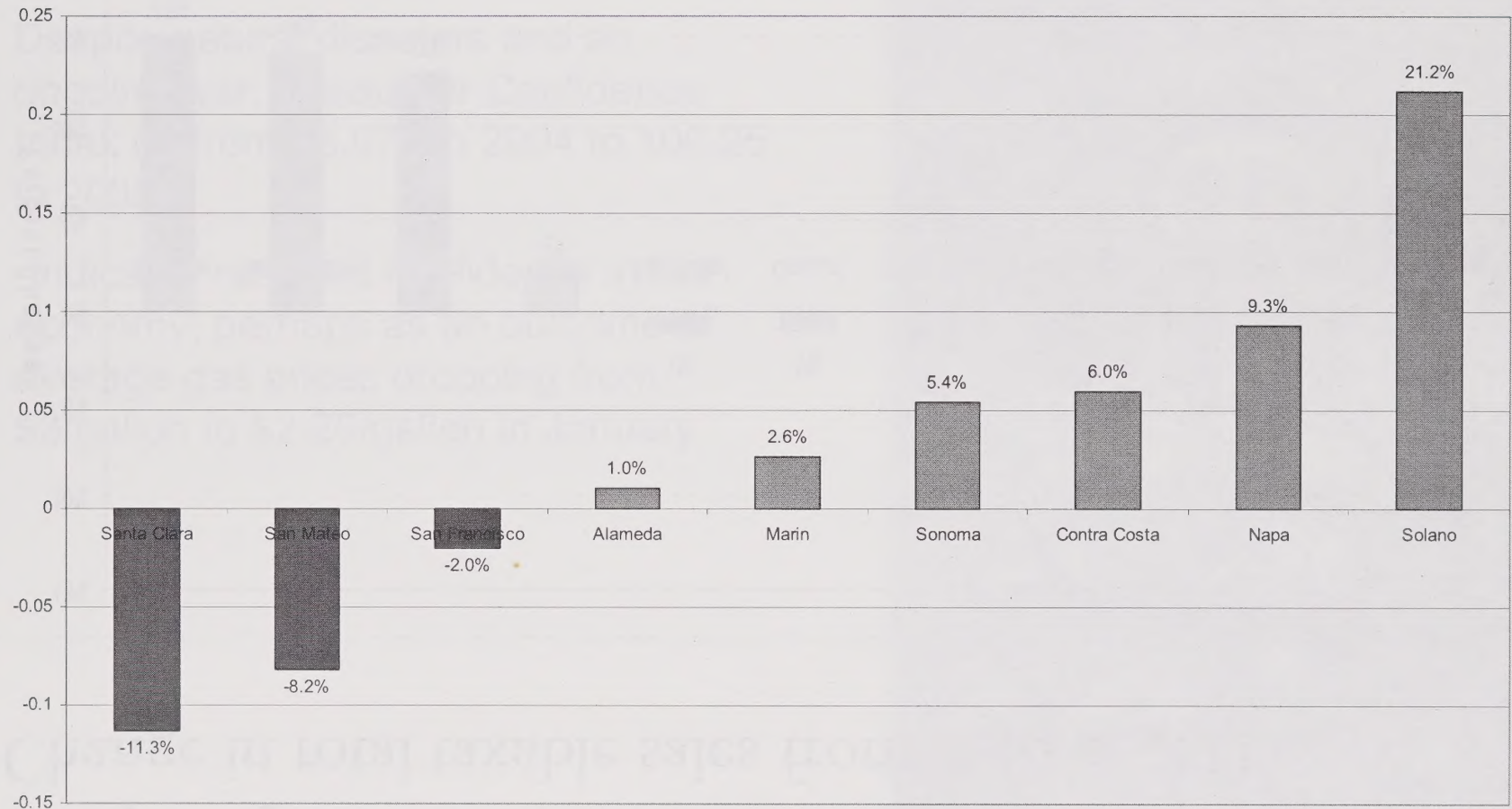
Source: Detroit News





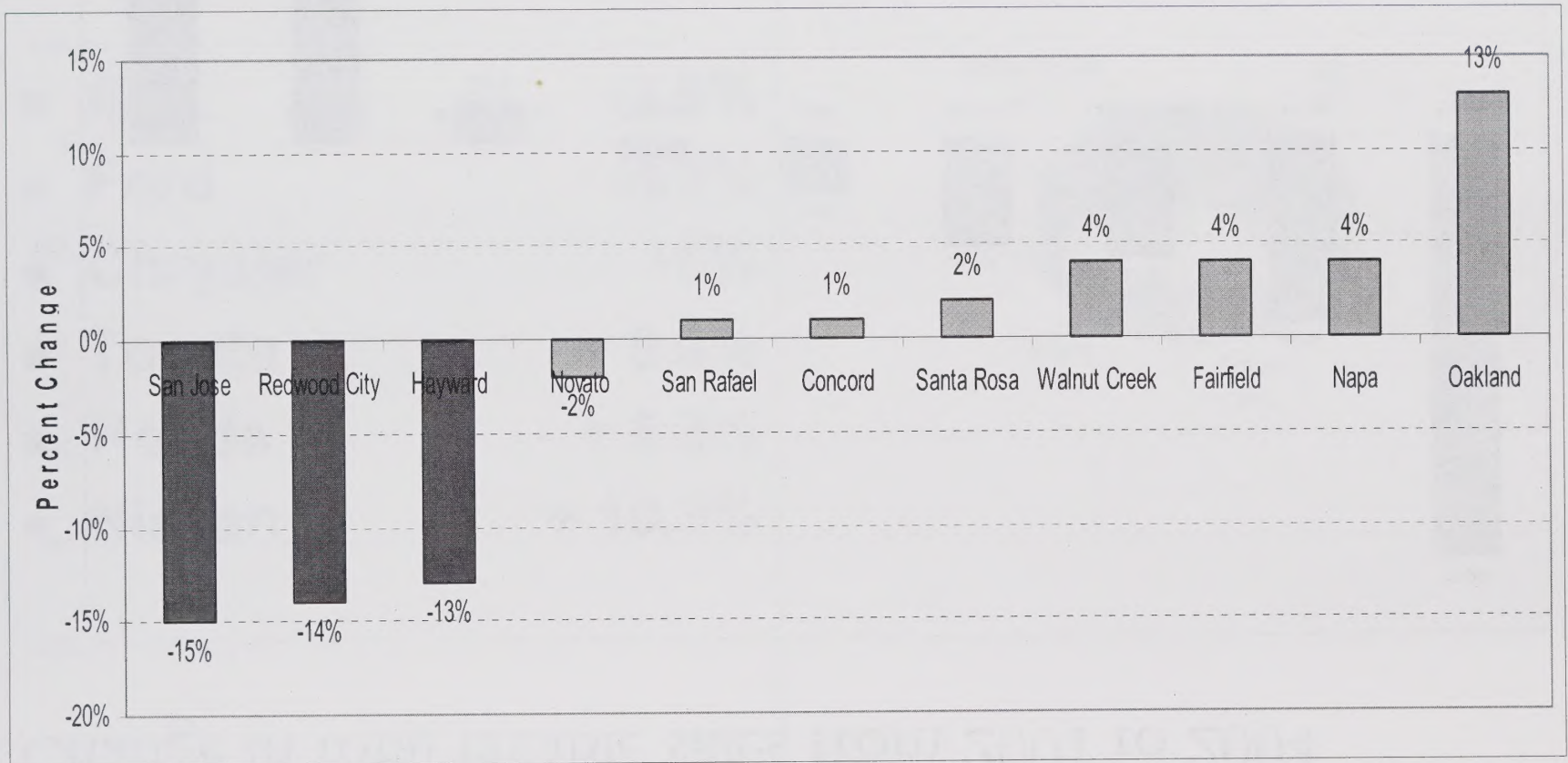
# County Ups & Downs

Change in total taxable sales from 2001 to 2004



# City Ups & Downs

Change in total taxable sales from 2001 to 2004





# Taxable Sales Forecast

Despite natural disasters and an ongoing war, Consumer Confidence Index up from 96.075 in 2004 to 100.25 in 2005

-Indicates restored confidence in the economy, perhaps as an outcome of average gas prices dropping from \$3/gallon to \$2.20/gallon in January



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# Outlook for Taxable Sales

Poised for a rebound

- Consumer confidence index has climbed over last year's level
- Job market improvement
- Mean household income increasing
- Steady sales growth



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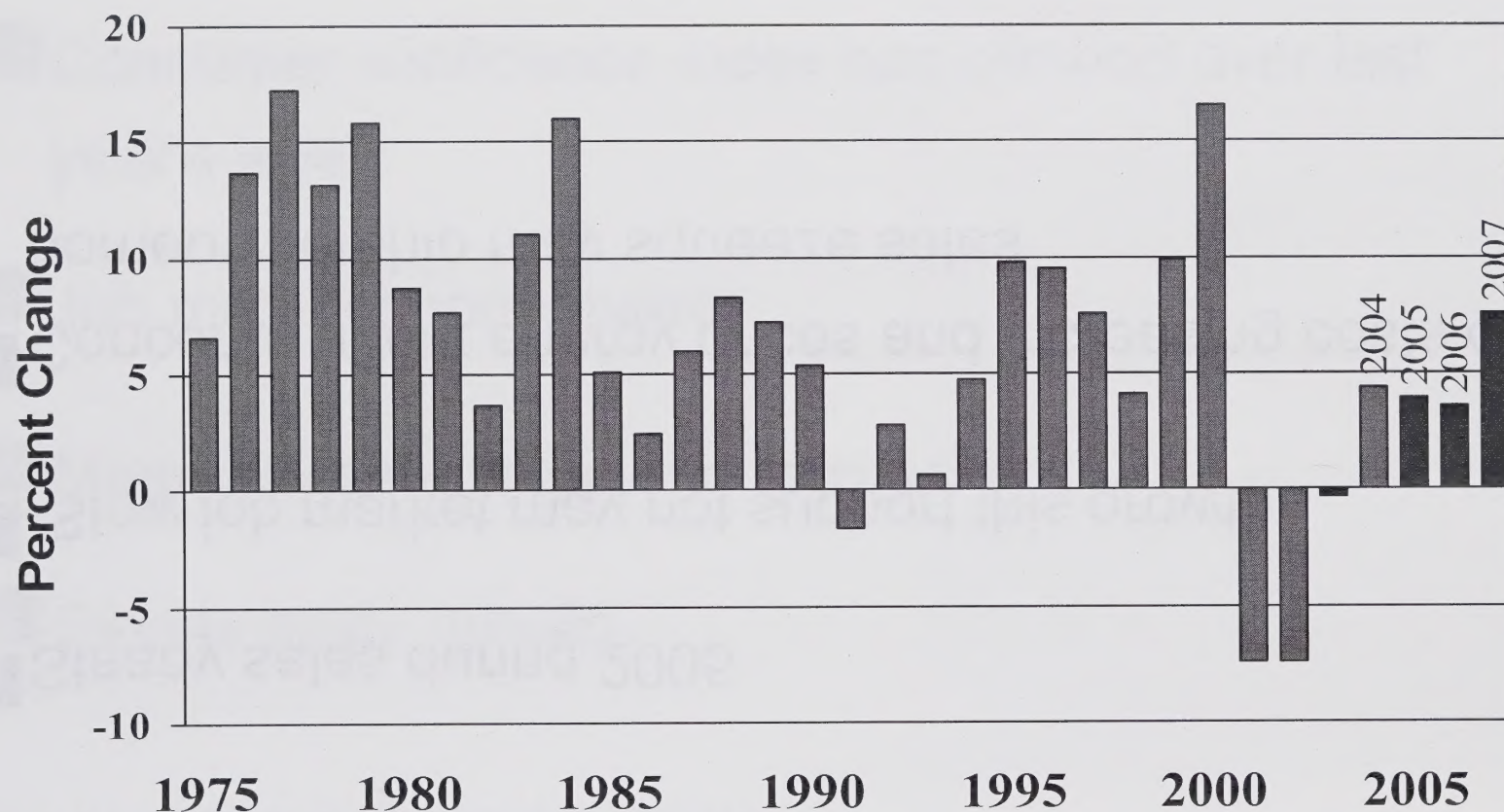
# Outlook for Taxable Sales

## Conversely: Slow start?

- Steady sales during 2005
- Slow job market may not support this growth
- Concerns about energy prices and increasing costs of homeownership may squeeze sales

# Taxable Sales Growth

San Francisco Bay Area (nominal dollars)

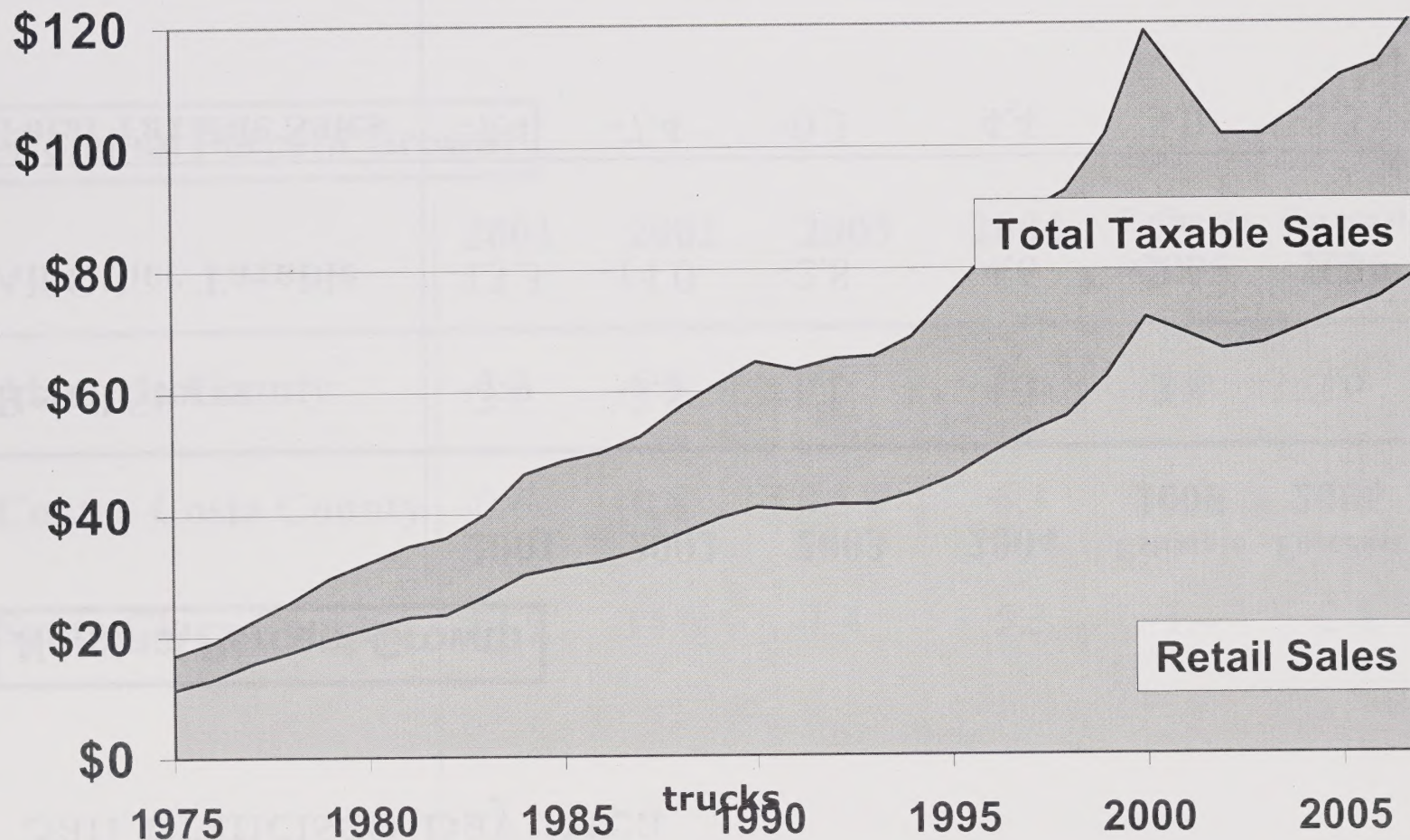


Source: California Board of Equalization, ABAG



# Taxable Sales

San Francisco Bay Area (\$Billions-nominal)



Source: California Board of Equalization, ABAG

# Taxable Sales Growth

## San Francisco Bay Area

### Nominal Percent Growth

|                            | 2001  | 2002  | 2003 | 2004 | Estimate<br>2005 | Forecast<br>2006 | Forecast<br>2007 |
|----------------------------|-------|-------|------|------|------------------|------------------|------------------|
| <b>Retail Stores</b>       | -3.6  | -3.5  | 1.1  | 4.3  | 3.8              | 3.6              | 5.6              |
| <b>All Other Taxable</b>   | -13.3 | -14.0 | -2.8 | 4.6  | 7.2              | 2.7              | 12.1             |
| <b>Total Taxable Sales</b> | -7.4  | -7.4  | -0.3 | 4.4  | 5.0              | 3.3              | 7.8              |



# Taxable Sales Growth

## East Bay & South Bay

### Nominal Percent Growth

|                            | 2001  | 2002  | 2003 | 2004 | Estimate<br>2005 | Forecast<br>2006 | Forecast<br>2007 |
|----------------------------|-------|-------|------|------|------------------|------------------|------------------|
| <b>Alameda County</b>      | -4.2  | -6.6  | 0.5  | 7.6  | 5.6              | 3.8              | 7.8              |
| <b>Contra Costa County</b> | -0.6  | -0.8  | 0.5  | 6.3  | 6.9              | 3.9              | 7.8              |
| <b>Santa Clara County</b>  | -13.9 | -14.6 | -1.4 | 5.3  | 5.4              | 2.8              | 9.6              |

# Taxable Sales Growth

## North Bay

### Nominal Percent Growth

|                      | 2001 | 2002 | 2003 | 2004 | Estimate<br>2005 | Forecast<br>2006 | Forecast<br>2007 |
|----------------------|------|------|------|------|------------------|------------------|------------------|
| <b>Napa County</b>   | 2.0  | 6.2  | -4.2 | 7.4  | 6.6              | 4.3              | 6.9              |
| <b>Solano County</b> | 7.3  | 6.9  | 5.2  | 7.8  | 6.5              | 3.2              | 4.0              |
| <b>Sonoma County</b> | -0.1 | -1.7 | 1.4  | 5.8  | 4.8              | 4.2              | 7.9              |



# Taxable Sales Growth

## West Bay

### Nominal Percent Growth

|                         | 2001  | 2002 | 2003 | 2004 | Estimate<br>2005 | Forecast<br>2006 | Forecast<br>2007 |
|-------------------------|-------|------|------|------|------------------|------------------|------------------|
| <b>Marin County</b>     | -2.6  | -2.6 | 1.1  | 4.2  | 4.7              | 3.3              | 6.4              |
| <b>San Francisco</b>    | -11.6 | -7.0 | -0.8 | 6.2  | 4.1              | 2.6              | 5.7              |
| <b>San Mateo County</b> | -8.4  | -9.7 | -2.2 | 3.9  | 5.2              | 3.0              | 7.5              |



# More Information

Including County Forecasts by Quarter

<http://data.abag.ca.gov/retail/>





# The Bay Area Real Estate Market: Prognosis for the Next Two Years

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Mary Murtagh - EAH, Inc.

John Troughton - Cushman & Wakefield

Alan Strachan - Developer



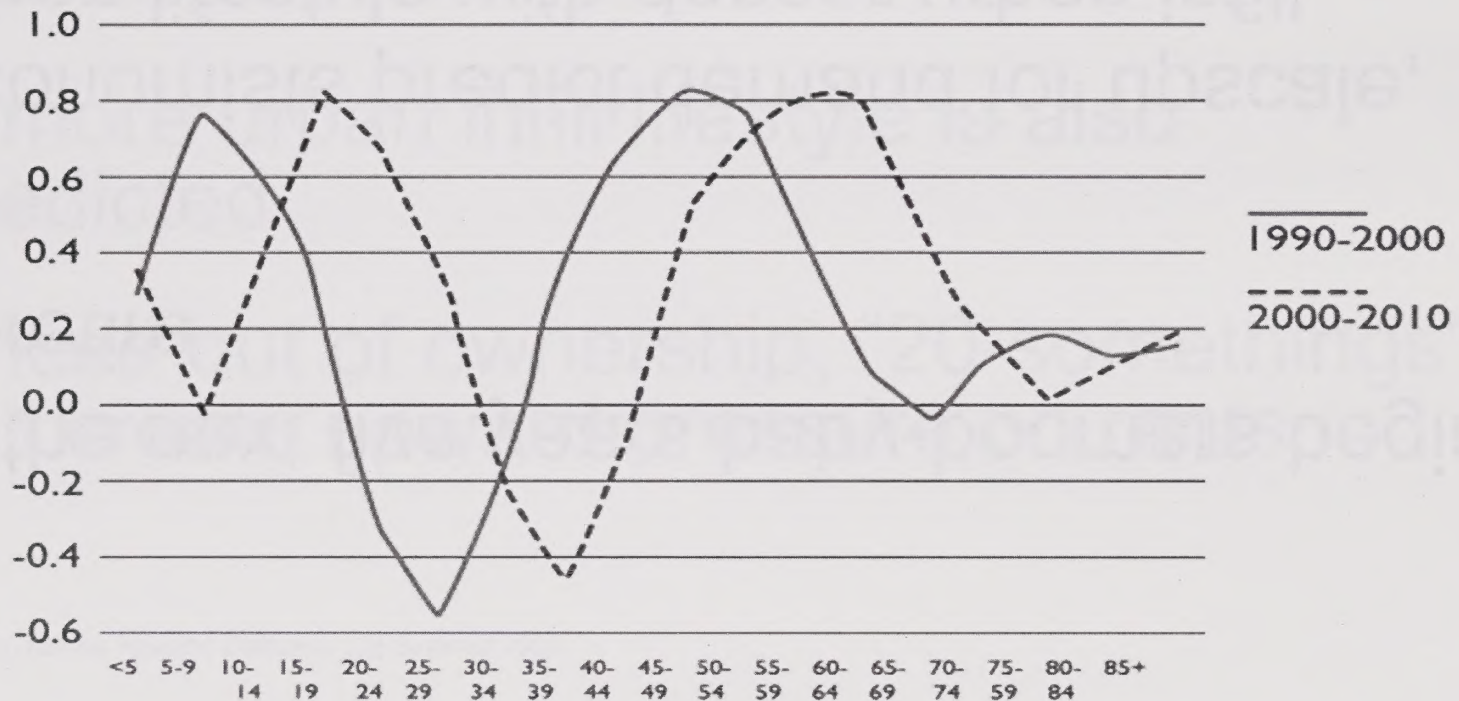
# **BAY AREA AFFORDABLE HOUSING OUTLOOK**



# Bay Area Rental Market

## CALIFORNIA POPULATION PROJECTIONS 1990-2010

Total Age Distribution (Numbers in Millions)



Graph Courtesy of Dowell Myers, USC

# “Twin Peaks” Phenomenon

- In the next five years baby-boomers begin to retire
- Economists predict demand for upscale, urban lifestyle with denser urban infill

Dowell Myers, *Quake*, Housing California 126 Summer 2005



# **“Twin Peaks” Phenomenon**

- Simultaneously, an equally large number of “20-somethings” will want to form their own households
- A more urban infill lifestyle is also predicted
- Priced out of ownership, “20-somethings” will create upward pressure on rents

Dowell Myers, *Quake*, Housing California 126 Summer 2005

# **“Twin Peaks” Phenomenon**

- These two groups will be competing for available housing product
- Can the market respond with adequate housing and provide for variety in pricing, and choice in unit types?



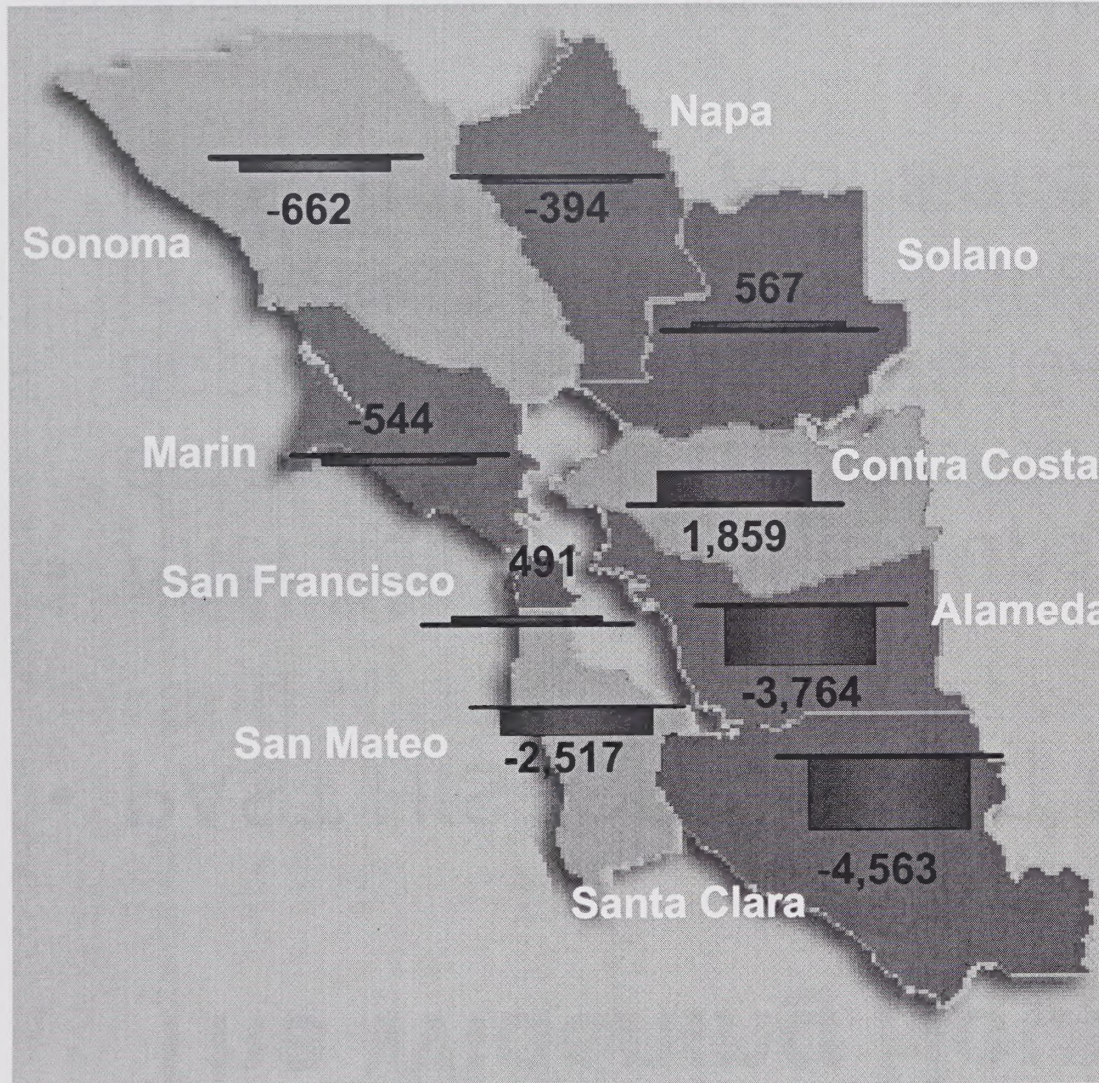
# The Widening Housing Deficit

- PAST HISTORY IS NOT ENCOURAGING
- After adjusting for the ups and downs of employment-driven home demand, it appears that the demand-supply gap has increased at the pace of almost 10,000 home units per year since 1989

Bay Area Economic Profile 2004 (Bay Area Forum / Bay Area Council / ABAG)



# Surplus/Shortage of Housing Units Per Year

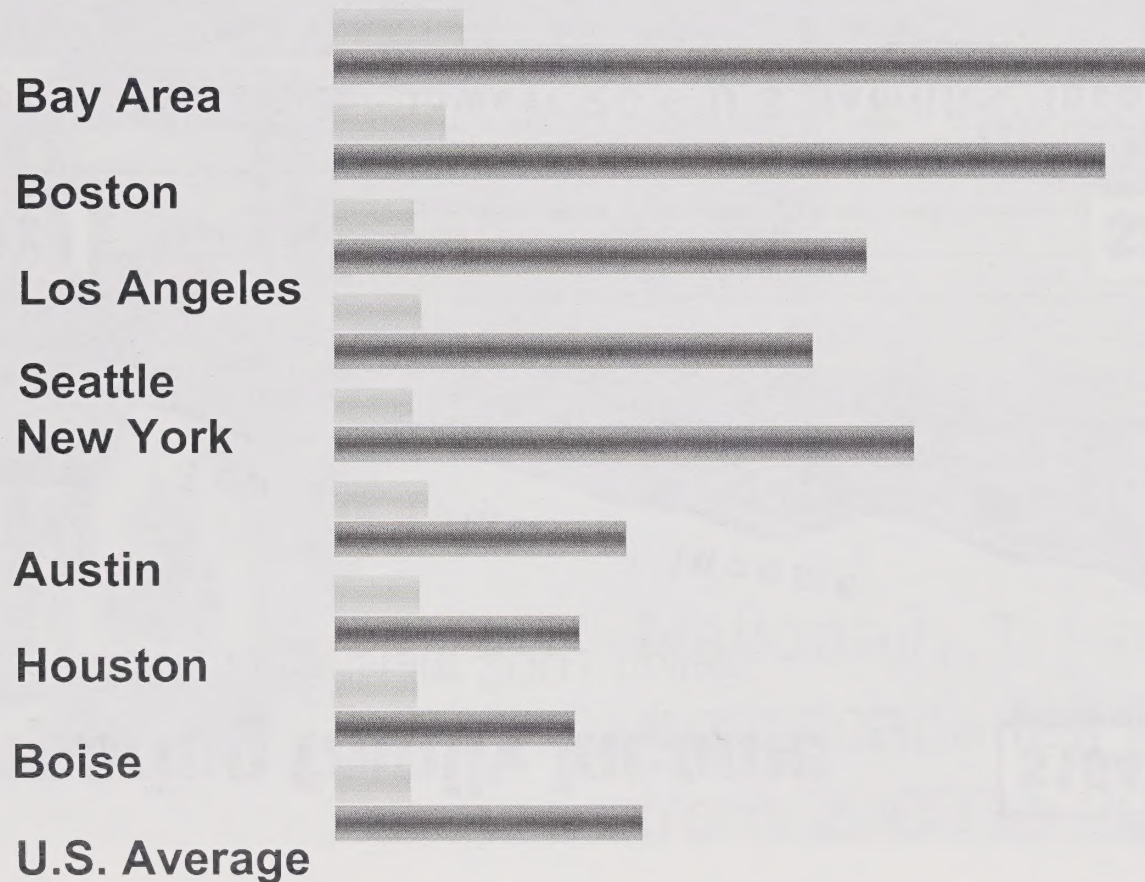


Average yearly housing surplus from 1990-2002

- On average, housing shortage in the Bay Area worsened by 9,525 units every year between 1990 and 2002



# Despite Higher Incomes, Bay Area Homes Are Among Least Affordable of All Comparative Regions



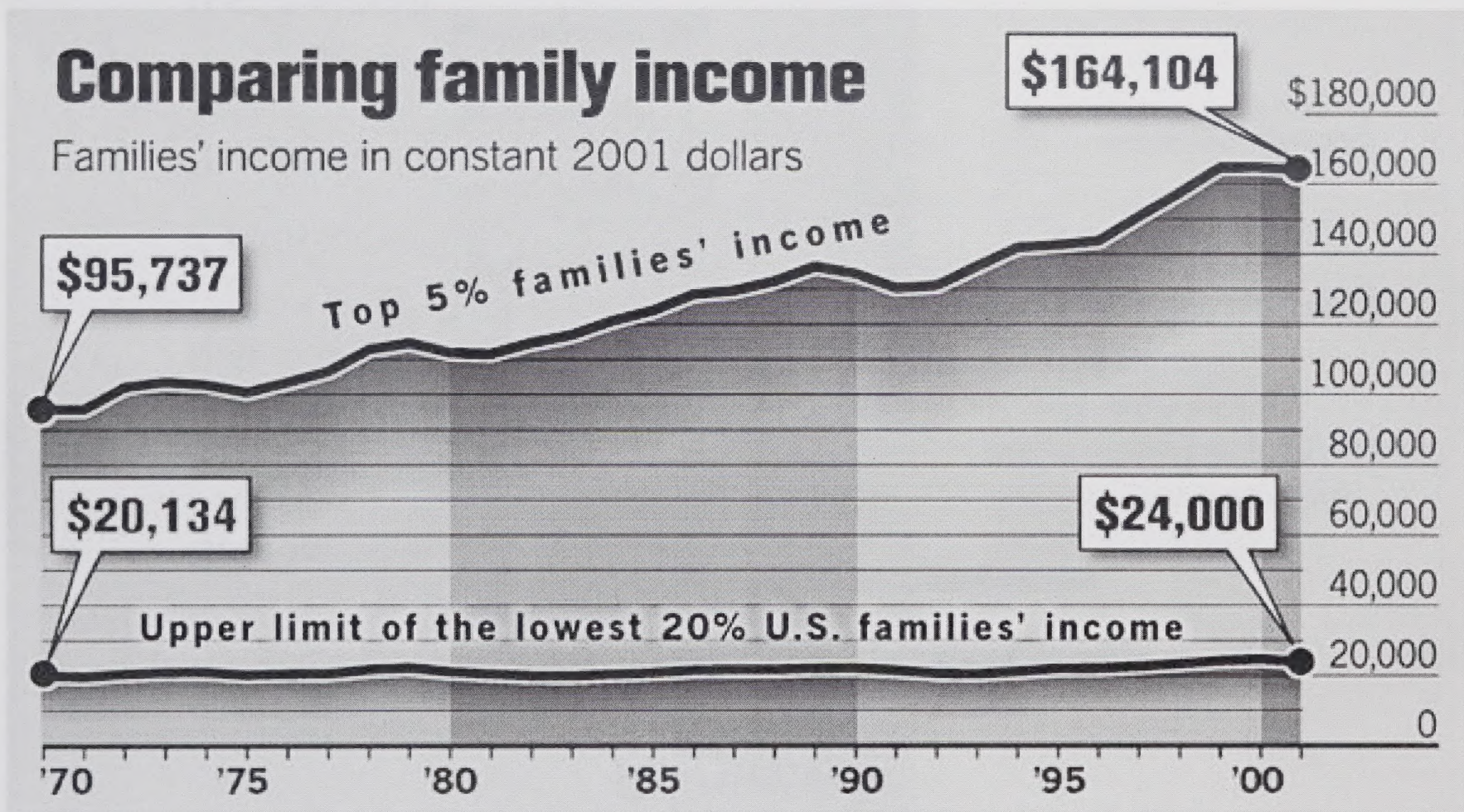
Bay Area Economic Profile 2004 (Bay Area Forum / Bay Area Council / ABAG)



# Hourglass Economy

## Comparing family income

Families' income in constant 2001 dollars

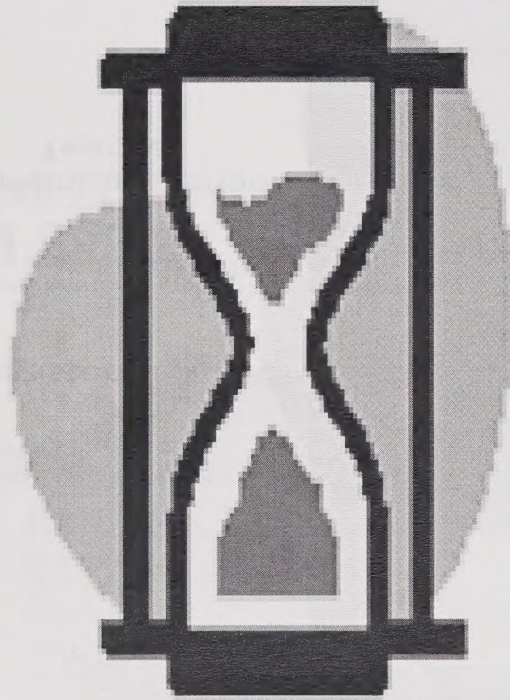


Source: US Census

*The Chronicle*  
Sunday, October 16, 2005



# Hourglass Economy



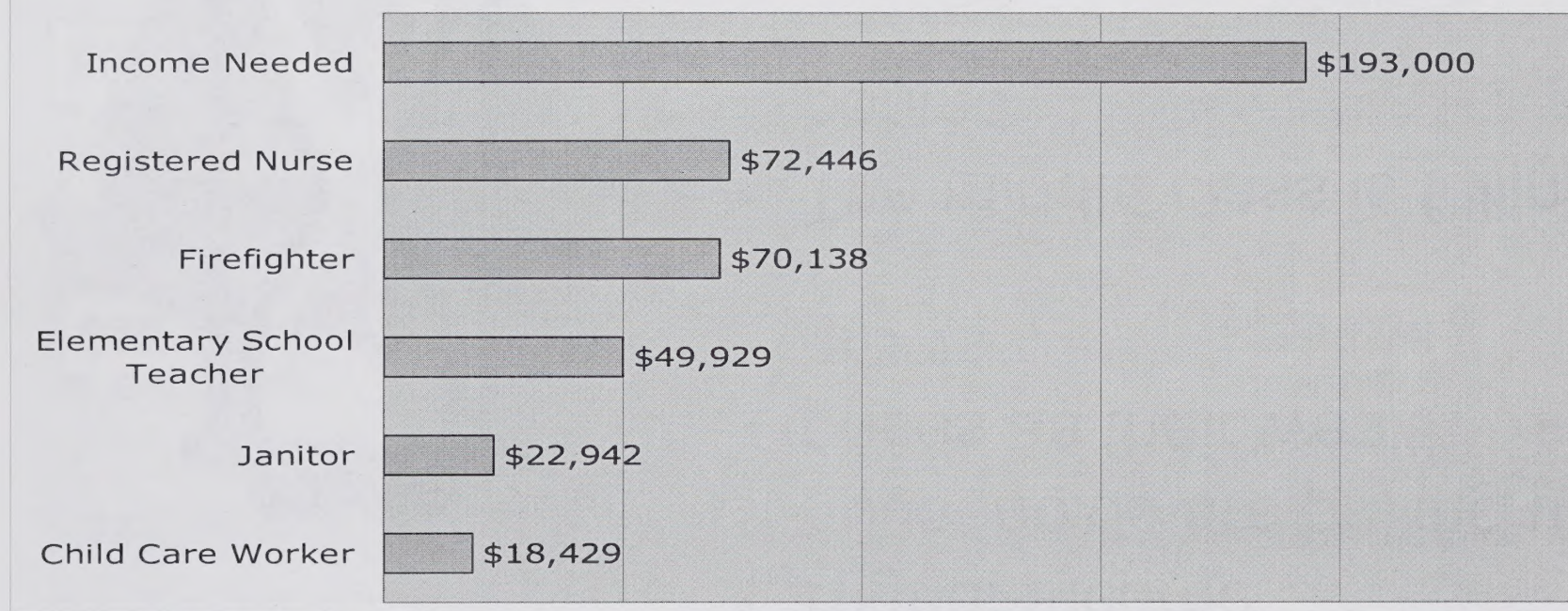
- Higher income households are pulling up prices as their wealth grows
- The middle class is falling behind
- Nationally, 1.1 million more Americans fell into poverty from 2003 to 2004

U.S. Census S.F. Chronicle Sept. 28, 2005



# Bay Area Workers Priced Out of Ownership

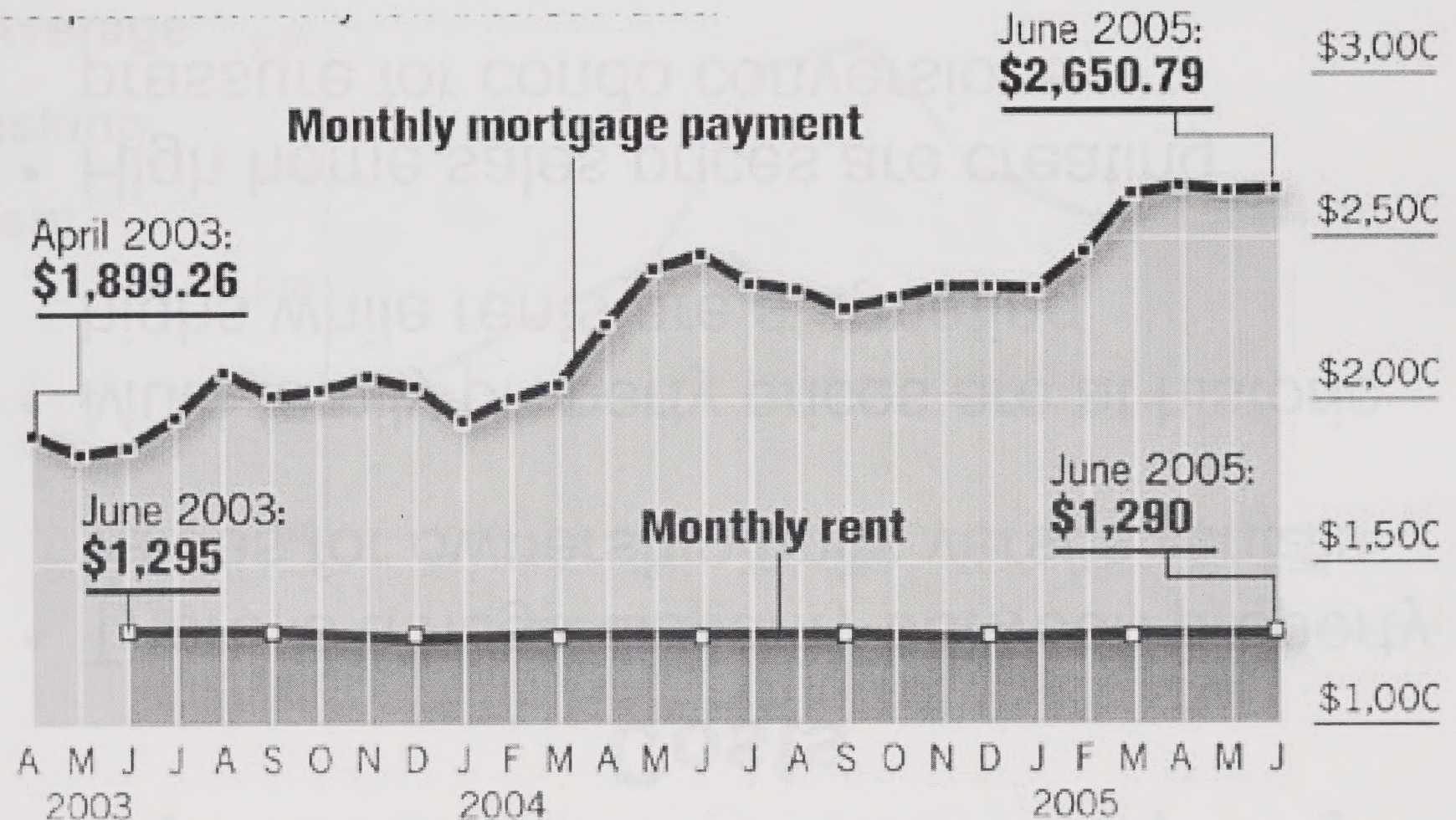
Median Home Price \$723,070 (Q2 2005)



California Assoc. of Realtors, California Budget Project (Locked Out 2004)



# Comparing Mortgage Payments with Rents



Source: DataQuick and RealFacts

*The Chronicle*  
July 21, 2005



# Upward Pressure On Property Costs

- There is a huge disparity between property values for ownership units versus rentals
- Multi-family property prices are at historic highs while rents are stagnating
- High home sales prices are creating pressure for condo conversions

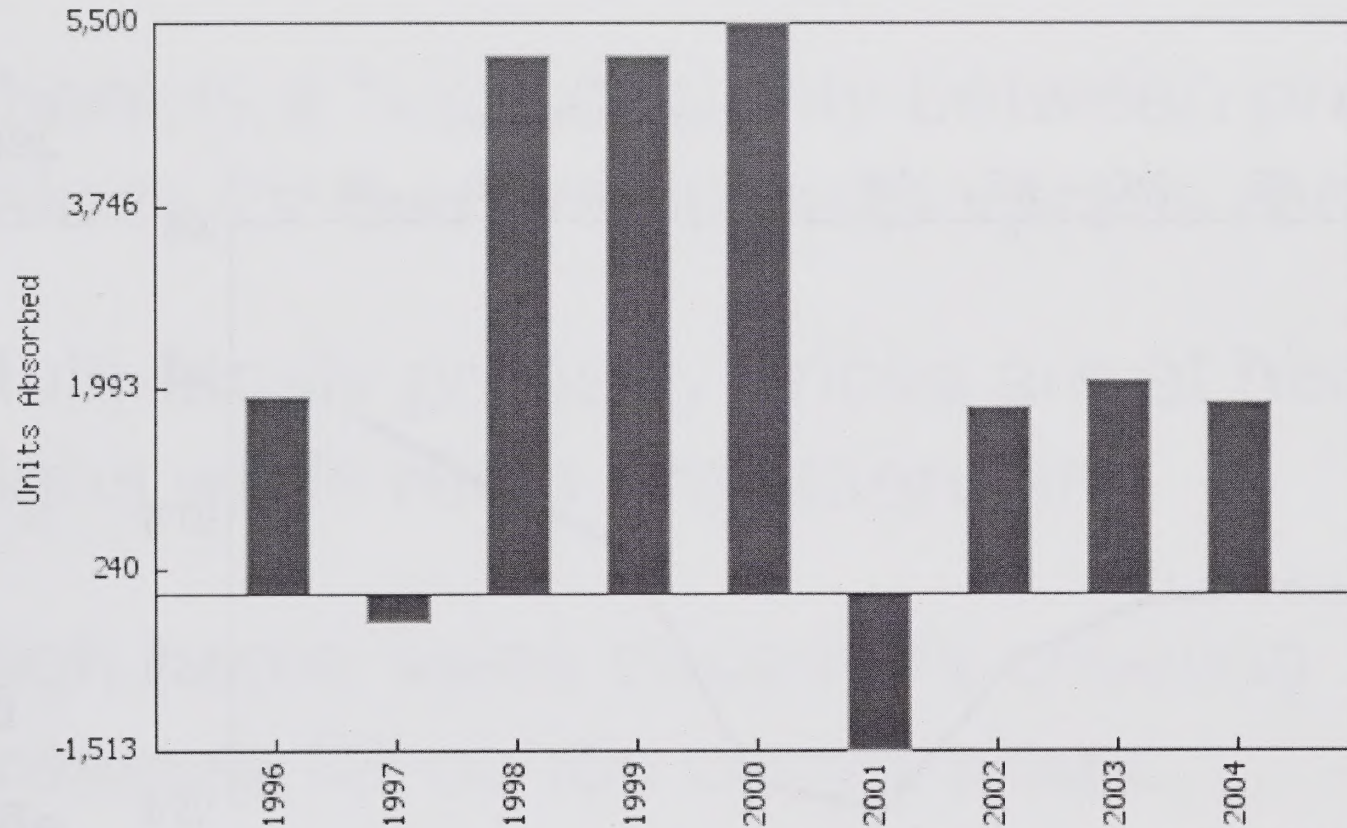


# Rental Market Recovering

Average  
asking  
rent



# Rental Absorption



RealFacts 3rd Quarter 2005

## Units absorbed per year



# Problems For Multi-Family Production

- Land prices for multi-family sites are set at condo levels
- Competition for scarce sites
- Zoning and regulatory hurdles persist
- Ever-growing construction costs
- Creating new market rate rental housing is not competitive under current conditions

# Diminishing Supply Of Older Affordable Properties

- California has more than 150,000 units of federally assisted units from prior HUD programs without long-term affordability controls
- Since 1996 California has lost more than 29,000 affordable units due to owners electing to opt-out and prepay loans



# Diminishing Supply

- The rest of the older HUD-subsidized supply is at risk
- Affordable units lost through prepayment and conversion of older HUD-subsidized complexes in California is triple that of any other state
- California's tight markets will cause this trend to continue

# Quality of Life ?

- Those who cannot buy must either rent, or drive – or both
- Commute times have increased drastically from 1990 to 2000
- 36.5% more workers commuting over 45 minutes

Bay Area Economic Profile 2004 (Bay Area Forum/Bay Area Council/ ABAG)



# Quality of Life ?

- Housing shortage is damaging standards of living and productivity
- Housing imbalances strain the transportation infrastructure
- The Bay Area seems poised to develop the suburban sprawl familiar to other metro areas such as Los Angeles

Bay Area Economic Profile 2004 (Bay Area Forum/Bay Area Council/ ABAG)

# Renters Left Out of the Picture

- More than four out of ten California households are renters <sup>(1)</sup>
- California is the second-least affordable state in the union for renters, behind Hawaii
- Half of the top ten least affordable counties in America are in the Bay Area

1. *Locked Out: California's Affordable Housing Crisis*, California Budget Project, May 2000



# Renters Left Out of the Picture

- Renters face the greatest affordability challenges
- Over half a million renters in the San Francisco Bay Area are stretched beyond their means, only one paycheck away from possible eviction (2)

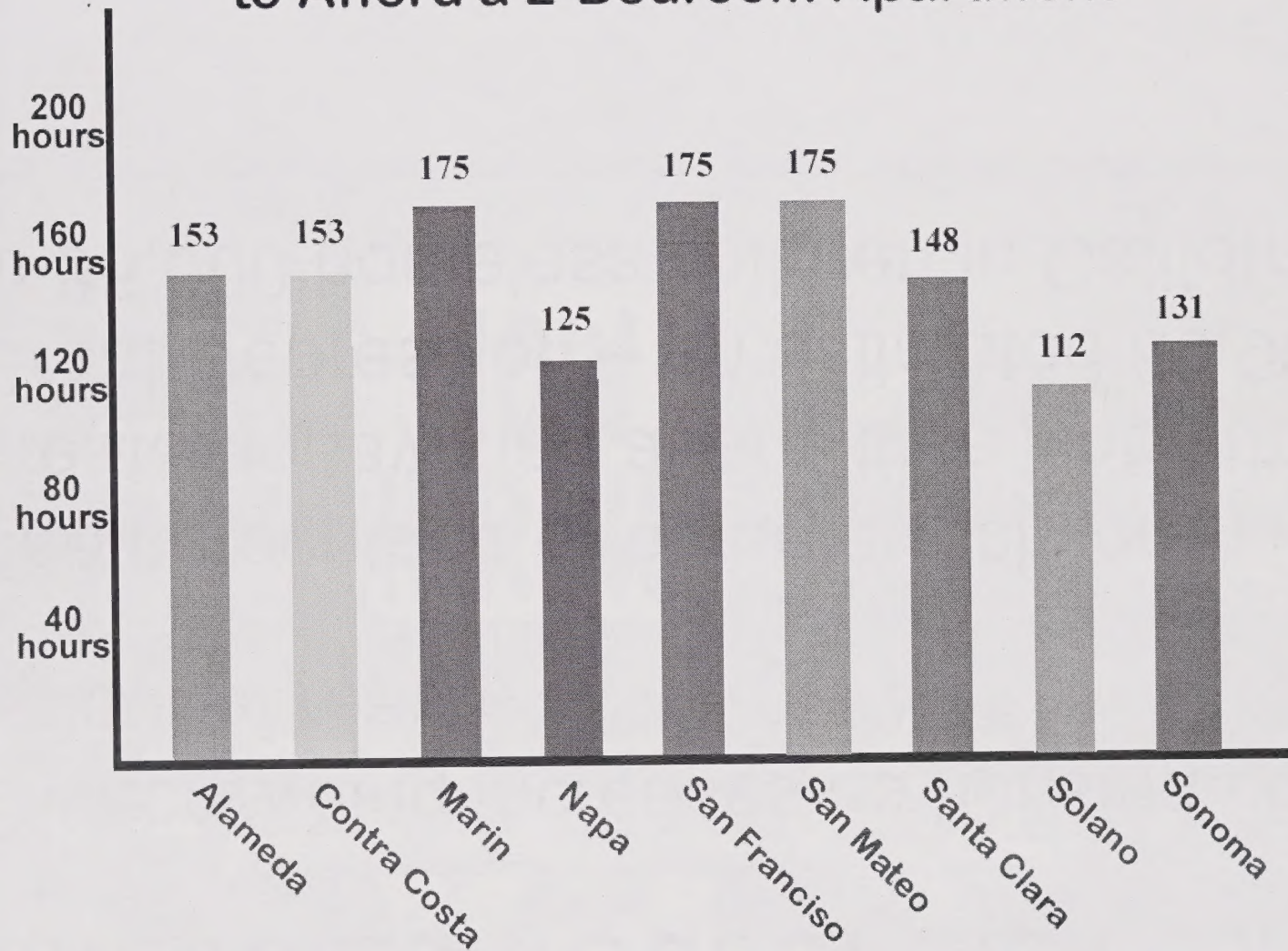
2. *Out of Reach 2005*, National Low Income Housing Coalition; NPH - No Cal Assoc of Non Profit Housing

# Renters Left Out of the Picture

- Minimum wage workers throughout the region need to have three to four jobs per household - with no vacation or sick days - to afford the typical 2 bedroom rent.



## Minimum Wage Hours Needed to Afford a 2-Bedroom Apartment



National Low Income Housing Coalition, *Out of Reach* 2005

# Renters Left Out of the Picture

- Overcrowding increases as housing costs go out of reach
- The percentage of homeless children is greater today than at any time since the Great Depression – an estimated 80,000 to 85,000 homeless children in California







# How Is Affordable Housing Funded?

- Mainstay Funding Programs

9% Tax Credits

4% Tax Credits

MHP (Prop 46)



# Mainstay Funding Programs

- 9% Credits
  - Higher investor equity
  - Over-subscribed, backlogged
  - 50% of applications rejected
  - Must levitate to qualify !

# Mainstay Funding Programs

- 4% Credits
  - Historically under-utilized
  - Allocation not very restrictive
  - Lower thresholds to qualify
  - Lower investor equity means more local funds required for deals to pencil



# Mainstay Funding Programs

Proposition 46 funded the Multi-Housing Program (MHP)

- Leverages the 4% tax credits to be comparable to 9% credits
- Allows affordable rental projects to pencil in soft rent market
- 4% program enables sites to work which cannot meet the restrictive 9% criteria

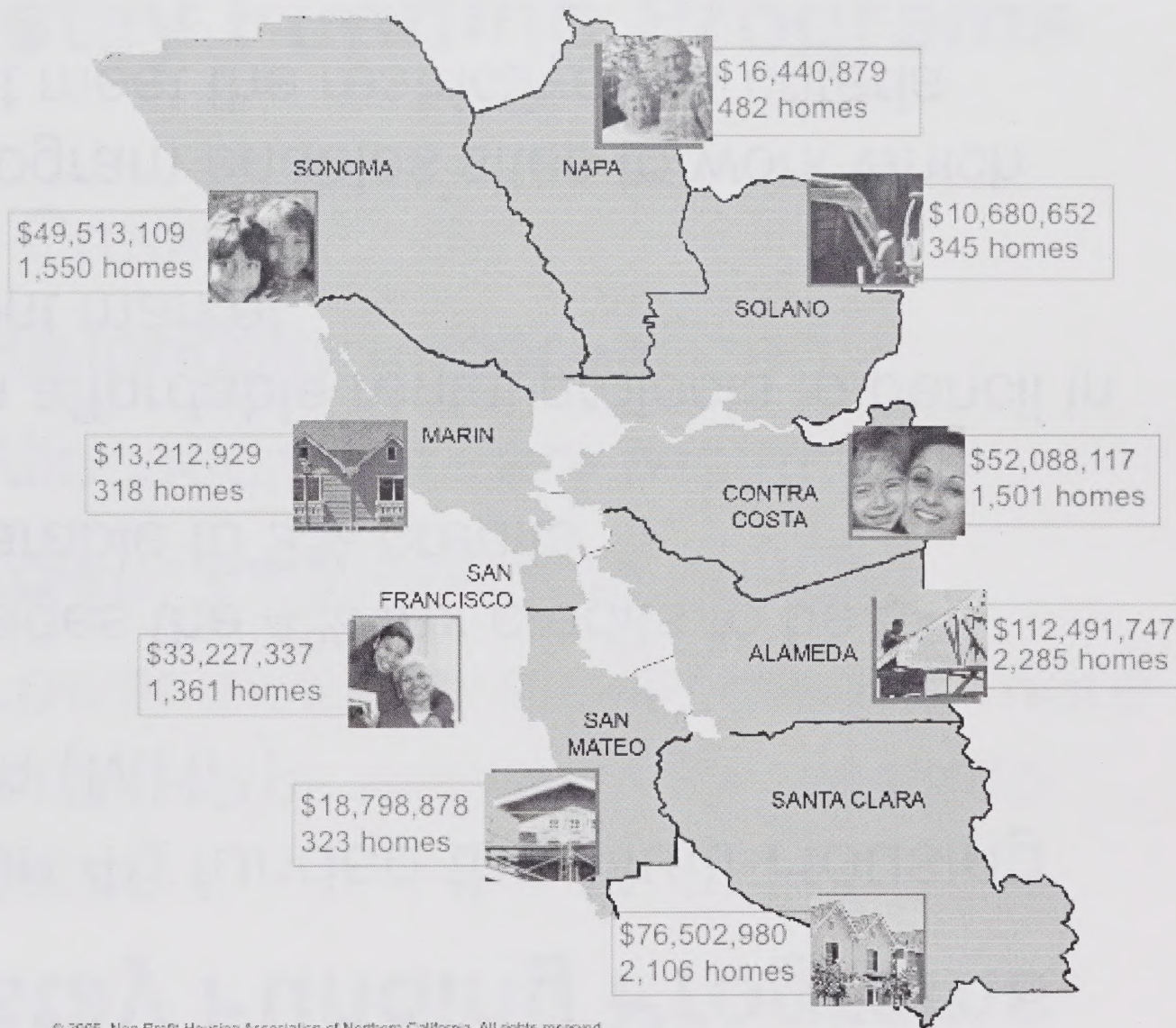
# Proposition 46 (MHP)

**Bay Area Total**

**Awards =**

**\$382,956,627**

**10,271 Homes**



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# MHP Prop 46 Impact

- Much deeper affordability
- Far less local subsidy needed
- High quality design is possible
- Quadrupled affordable production from 2003 through 2005



# San Clemente





# Impact of MHP (Prop 46) Funding

- Local government funding needed

**With MHP**

**\$4,400,000**

**Without MHP**

**\$8,445,000**

**San Clemente Homes**

# Impact of MHP Funds

| <u>AMI</u> | <u>Rents</u><br>(1BR - 3BR) | <u>With MHP</u> | <u>No MHP</u> |
|------------|-----------------------------|-----------------|---------------|
| 20%        | \$387 - 530                 | 14              | 0             |
| 25%        | \$493 - 677                 | 18              | 0             |
| 50%        | \$1023 – 1412               | 28              | 24            |
| 60%        | \$1150 – 1530               | <u>19</u>       | <u>55</u>     |
|            |                             | 79              | 79            |

San Clemente Homes



# Camellia Place





# Impact of MHP (Prop 46) Funding

- Local government funding needed

**With MHP**

**\$7,000,000**

**Without MHP**

**\$10,900,000**



# Impact of MHP Funds

| <u>AMI</u> | <u>Rents</u><br>(1BR - 3BR) | <u>With MHP</u> | <u>No MHP</u> |
|------------|-----------------------------|-----------------|---------------|
| 20%        | \$265 - 365                 | 4               | 0             |
| 30%        | \$421 - 581                 | 18              | 0             |
| 35%        | \$498 - 688                 | 20              | 0             |
| 50%        | \$731 - 1011                | 25              | 34            |
| 55%        | \$809 - 1119                | 25              | 0             |
| 60%        | \$886 - 1226                | <u>19</u>       | <u>77</u>     |
|            |                             | 111             | 111           |

Camellia Place

# Affordable Housing Production - HUD

- HUD is disappearing from the view-screen
- 202 production under 150 units per year in 9 county area
- Section 8, HUD, are under attack by the Administration – “death by 1000 cuts”



# Challenges to Continued Affordable Production

- Prop 46 dollars for conventional family affordable projects will run out in March
- Loss of MHP / Prop 46 funds will cripple production of affordable housing until other sources become available

# Challenges to Continued Affordable Production

- Projects now in the pipeline are being stopped
- No capacity to house lowest-wage employees
- Homelessness will increase



# Conclusions

- There is huge unmet need
- Need is growing
- Obstacles are increasing
- Threats to funding pose huge new obstacles

# It's Up to You...

- Short term funding solutions result in an inefficient affordable housing industry
- California must find a way to create a permanent source of funds for affordable housing



# Local Officials Homework Assignment

- Create local funding streams
- Take your housing element seriously
- Use ordinances to lower housing production costs and uncertainties
- Increase public awareness of housing issues and the impact on business

# New MHP Funding in Jeopardy



## **Governor's plan omits housing and transit**

Critics say crucial needs unmet  
under ambitious bond proposal

January 7, 2006



# Local Officials Homework Assignment

## **IMMEDIATE:**

- Assign City's lobbyist to get housing into Governor's bond proposal
- Support State Assemblyman Nunez' and Senator Perata's version of the bonds

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H O U S I N G  
C O R P O R A T I O N

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[www.eahhousing.org](http://www.eahhousing.org)



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# The Bay Area Real Estate Market: Prognosis for the Next Two Years

John Troughton  
Director, Cushman & Wakefield

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Regional Economic Outlook Conference 2006-2007  
January 26, 2006

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# The Bay Area Real Estate Market: Prognosis for the Next Two Years

Alan Strachan

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Regional Economic Outlook Conference 2006-2007  
January 26, 2006



# Affording a Home

WHAT DOES IT TAKE TO BUY A REASONABLY PRICED HOUSE? BY RODGER DOYLE

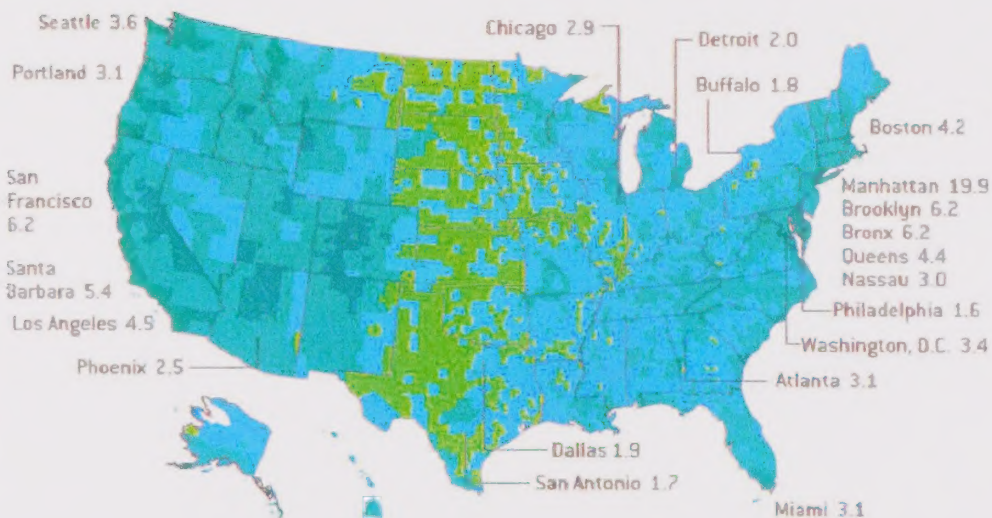
**T**here are now about 107 million households and 122 million dwelling units in the U.S.—more than enough, it would seem, to place all 287 million Americans under a roof. Furthermore, the typical U.S. family can afford a house: according to the National Association of Realtors, a family with a median income of about \$52,000 has 36 percent more than the minimum needed to qualify for a mortgage on a median-priced house.

typical house there. But in places such as Santa Barbara, Calif., where the median income is \$54,000, a family must spend 5.4 years' worth of income to buy a median-priced residence, valued at \$293,000. The typical Buffalo family would have no problem obtaining a mortgage with a minimum down payment, whereas a similar family in Santa Barbara would be turned down. In certain other places, such as Brooklyn, N.Y., prospective buyers are at an even greater disadvantage: houses there are valued at an average of \$224,000, but the average family income is only \$36,000, or 6.2 years' income.

The Millennial Housing Commission, a bipartisan group appointed by Congress, concluded in a May report that affordable housing in the U.S. for low- and moderate-income renters—those with family incomes of up to 120 percent of the median income—is “being lost at alarming rates.” In the prosperous Washington, D.C., region, for example, 114,000 new jobs were added in 2000, compared with only 35,000 new dwelling units. Using the rule of thumb of 1.6 workers per home, that is a shortage of about 36,000 homes.

Part of the problem in Washington and elsewhere is gentrification of older properties, which has led to a reduction in the number of units available to lower-income families. Other causes for the shortfall, according to the Millennial Commission, are a rise in housing production costs; inadequate public subsidies; and local regulations, including zoning laws that require at least five acres for each home or limit the construction of multifamily dwellings. Indeed, according to economist Edward L. Glaeser of Harvard University and policy analyst Joseph Gyourko of the University of Pennsylvania, zoning restrictions, rather than a shortage of land, may be the most important contributor, especially in places such as New York City, Washington, D.C., and Los Angeles.

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Number of Years of Median Family Income Needed to Buy a Median-Priced House, by County

Less than 1.5 1.5 to 1.99 2 to 2.99 3 or more No data

SOURCE: U.S. Census 2000. Based on homeowners' estimates of the value of their house in 2000 and their income in 1999. The figures noted on the map apply to the home counties of cities.

## NO PLACE LIKE HOME

Total housing units in 2001:  
119,120,000

Total year-round housing units:  
117,900,000

Occupied by owner: 61.8%

Occupied by renter: 29.1%

Vacant: 10%

SOURCE: U.S. Department of Housing and Urban Development, Office of Policy Development and Research

But many Americans are not housed adequately, and some are not housed at all. Part of the problem is that many live in places where housing costs are high in relation to income. This is illustrated by the map, which correlates median family income to median housing value, expressed as the number of years of income needed to obtain an existing home. As the map indicates, buyers have a relatively easy time purchasing in areas such as Buffalo, N.Y., where the median family income is about \$49,500 and the median house valuation is about \$91,000. Thus, it takes about 1.8 years of family income to buy a





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